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## CONTENTS FOR JANUARY, 1932



### looking ahead

Continuing the analysis of the foundations of the 1932 business structure, which is now in the process of going upward, we will supplement the features of this January issue with an equally strong array of articles and authors in our coming number.

Dr. Clyde William Phelps, Economist of the Federal Trade Commission, Washington, D. C. will present his thoughts on the subject of "Credit as a business force". Those who remember his thorough-going address at a recent National Association of Credit Men convention know in advance the authority of the author and authenticity of the article to come.

The annual survey and breakdown of bankruptcy figures featured by CREDIT AND FINANCIAL MANAGEMENT each year, will be ready by next month.

And Carl Snyder of the Federal Reserve Bank in New York will present a statistical study comparing the present and past depressions. His piece is the kind that should be read more than once. Your first chance will come in a few weeks.

# CREDIT and FINANCIAL MANAGEMENT

CHESTER H. McCALL, Editor and Business Manager

Volume XXXIV Number 1

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# A new haircut

What the United States needs, more than anything else, as it enters 1932 is a new hair cut! To illustrate the specific meaning of this generalization, an actual, individual experience is presented in the next paragraph.

Glenn Sanders is a salesman of advertising space. It is his job to present the merits of his publication to advertisers and advertising agencies in an endeavor to secure advertising space contracts for his magazine. During the seven weeks preceding December 1, he had not secured a single contract. He had also been unable to obtain renewals on other contracts expiring on January 1, 1932.

All he had accumulated from the advertising prospects were hard luck stories, tales of woe, reduced appropriations, and the "we're waiting for the business turn" attitude. Glenn had unconsciously assumed the same psychological attitude. One morning he realized that he hadn't been to a barber for five weeks. His hair was straggling down over his ears. Suddenly he knew that he appeared "un-prosperous". He looked to be a man out of work instead of an advertising manager. "No wonder", he concluded, "that I can't sell any contracts. No wonder that I feel sorry for myself every time I look in the mirror". At eight o'clock the next morning Glenn was in the barber shop for a shave, a haircut and a tonic. He told me that he pulled his tie a little tighter and squared his shoulders a little more, as he looked at himself in the barber's big mirror. The thought struck him that subconsciously he had been trying to sell advertising on sympathy. That day, with problems and negatives just as tough as they had been on any day during the past two months, Glenn sold two new contracts and renewed one of the old contracts which had been definitely cancelled.

Glenn's advertising facts were no better than they had been, his magazine had not improved one iota within twenty-four hours—but his approach to and interpretation of the facts and the magazine were improved one hundred per cent. His neat, fresh, confident appearance had inspired enthusiasm and confidence in the men with whom he talked. Back of this highly encouraging and successful day was a haircut!

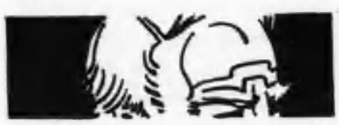
The United States does not need the kind of enthusiasm that is generated by foolish optimism. It needs "new haircut" enthusiasm—the kind of enthusiam that is generated by an honest appraisal and interpretation of facts. We've had a new haircut since the dark days of our recent depression. Business doesn't look as bad as we think it does. Times are relatively normal today but things look bad to us because we persist in comparing the normality of today with the abnormality of 1929. Business conditions, as we look in the economic mirror, are merely a reflection of our own faces, expressions, thoughts and feelings. Because business has to exert real effort to obtain its income and give an honest and careful justification for its expenses and expenditures we say "things are bad." Prosperity softened us so much that we haven't the energy to hurdle obstacles. Problems to solve make us gloomy and morose.

As this editorial is written, President Hoover's and Secretary Mellon's proposal for increased taxation and other emergency measures is occupying the headlines in our newspapers. Two London newspapers commented as follows on the situation in the United States: The *News-Chronicle* said, "The United States is a very sick country in a very sick world. The prolonged slump burst the bubble of incalculable wealth." The conservative *Morning Telegraph* said, "President Hoover unfolded a melancholy story, showing that the Federal Treasury is in a far worse position than the British Exchequer." These are eloquent examples of how newspaper editors all over the world are tainting national and international situations with the gloom, pessimism and morbidity of their personal opinions and prejudices.

This world needs a new haircut! It is bad enough to have the hair straggling down over our ears but when it streams down in front of our eyes and obscures our sight and vision it is an inexcusable laxity. The times demand business leaders and government statesmen who are economic barbers—leaders who say what they think and not what they think they should say.

In prosperous times we have an epidemic of prophecies stating that prosperity is going to continue *ad infinitum*. In depression periods we have an epidemic of prophecies that years of depression loom before us, overshadowing our faith in the future. Too many business leaders today are like Sanders was before he had a haircut. They think that both their own organization and business in general are much worse than they really are.

The "new haircut" method is nothing more than an honest appraisal of honest facts. Hippocrates, in ancient Greece, laid down three rules that are just as new and just as fundamental today as they were over two thousand years ago. He said, "There is no authority except facts. Facts are obtained by accurate observation. Deductions are to be made only from facts." Today is a day of facts. We will lose out in our competition with others if we don't get a new haircut when we need it.



Chester H. McCall

# The business

## a compilation of business and

### Straws in the wind

**Blow hot, blow cold — the following straws indicate the strength and direction of the trade winds in recent weeks:**

The endless stream of forecasts on business in 1932 has started. One of the first comes from the United Business Service of Boston, which presents the following interesting views:

BUSINESS VOLUME: A reversal of the downward trend of business will take place in 1932. Activity is expected to increase more than normally in the Spring. By Fall sustained recovery will be under way.

COMMODITY PRICES: 1932 will be a year of stability in commodity prices as a whole. Raw materials will be higher. Falling prices will probably continue in many finished products, however.

RETAIL TRADE: Sales are expected to increase as the year progresses, aided by more installment purchasing and better employment conditions. Agricultural buying power should average about 5 per cent higher next year. Retail prices are expected to be lower in 1932.

BUILDING: Total volume is expected to be slightly higher than this year. It will probably amount to $3,500,000,000, compared with the 1931 total of $3,250,000,000. Building costs will be lower next year. Residential building will be stimulated also by the Federal home loan plan.

AUTOMOBILES: A slight rise is expected in 1932. Total output will probably be in excess of 2,500,000 units, which is approximately the total for 1931. Prices will be lower and a greater percentage of cars will be sold in the low-price field.

BONDS: A highly selective and irregular bond market is in prospect for 1932. High-grade, short-term bonds will continue steady. Government bonds will be under pressure. Foreign bonds will follow an erratic course.

STOCKS: The industrial average should rise about 40 to 50 per cent from the 1931 low point in the first half of next year. Prices will probably react in the Summer and move up again in the Fall. Stocks promise to be substantially higher at the end of 1932.

SOME New Year's resolutions are made to be broken. But the lessons of the old year should not be forgotten. In recent months business has learned much and the credit profession has been more truly evaluated. It is interesting to note, in this regard, the opinions of Mr. Charles E. B. Dickinson of the Fairchild Publications, on the subject of credit.

For the last two years the credit situation has been an issue of paramount importance, he says. Perhaps because of the strain of the load that has been carried by most credit men or again because of the length of time and the extraordinary conditions that have prevailed, the situation is drawing to a point where strained nerves, some believe, may be doing unnecessary harm.

Those who believe this think that any one who hears rumors, or who has a premonition, or who has facts at his disposal, should, to say the least, move carefully. It is a time of the year when business normally is dull.

It is a period also of inventories, approaching annual statements, a certain amount of apprehension and nerve strain for those who are trying to develop a good position for the year-end, because their ability to do business next year depends so much on the state of their inventory and their cash position.

The industry is composed not alone of the "big fellows," it also includes the myriads of "little fellows" whose aggregate makes up a most respectable total and is the larger proportion of the business. There are always those who are in difficulties and the alert credit man is always "on his toes" endeavoring to anticipate these conditions and, consequently, he is highly susceptible to rumors, some of which are little more than whispering campaigns.

A good bit of advice was recently passed out by one credit man who suggested in this crisis that any one hearing a rumor about any concern should refuse to pass it along unless he had first made an investigation. He suggested that when a manufacturer of cloth was

# thermometer:

## financial trends and indications

interested in the welfare of a given account, having sold them, it should be the business of his selling organization upon hearing rumors, to go straight to the house in question and learn the truth.

This particular credit man cited three instances within a single week, all of which were far from being in the position rumor indicated, but the principals in which might have suffered irreparable injury as a result of the passing on of rumors for which there was no foundation in truth.

Of course, the interest in these things is something that cannot be denied. It is the right of every business man to exercise his own judgment and take precautionary measures. If in so doing he arouses the suspicions of others, it is the others who should be careful. It causes much unnecessary worry and most of the troubles can be straightened out if the time element is allowed.

Self control action in moderation, and a disposition not to give credence to every rumor that comes along is recommended by the less temperamentally inclined credit men to their contemporaries. Above all things, they advise them not to get hysterical in the crisis, not to take unnecessarily drastic steps, to investigate all situations before assuming a position and to act in moderation.

Not all credit men are fully apprised of the differences in the methods of doing business. A house that was not overly familiar with the experiences of tailors-to-the-trade, had sold such a buyer a bill of goods. The buyer was slow in payment and the credit department made an investigation. They found that this particular house had 30 per cent. returns and regarded the percentage as high, immediately forming a wrong impression.

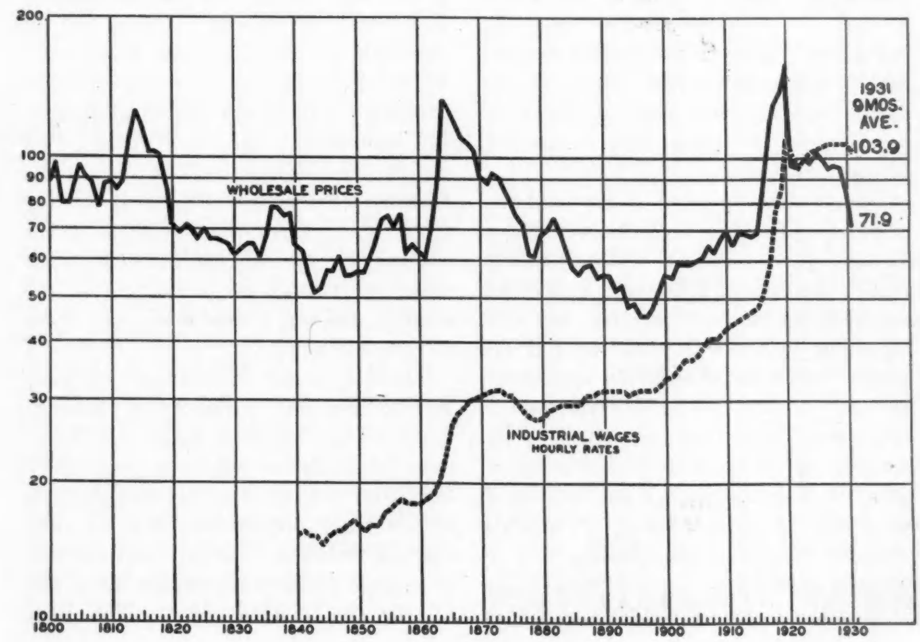
This, however, was normal, though it would have been extremely high for a clothing manufacturer. Those familiar with the business of the tailors would have known this before but the seller referred to was unduly and unnecessarily disturbed.

The more progressive types of credit men who increase the business of the

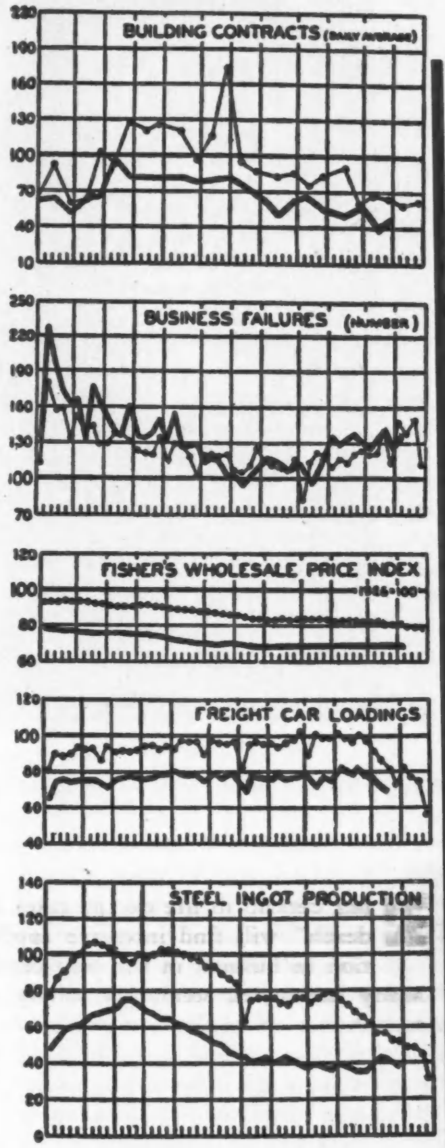
*(Continued on page 42)*

**Relation of industrial wages to wholesale prices, 1840 to 1931, charted by National Industrial Conference Board, 1923 = 100**

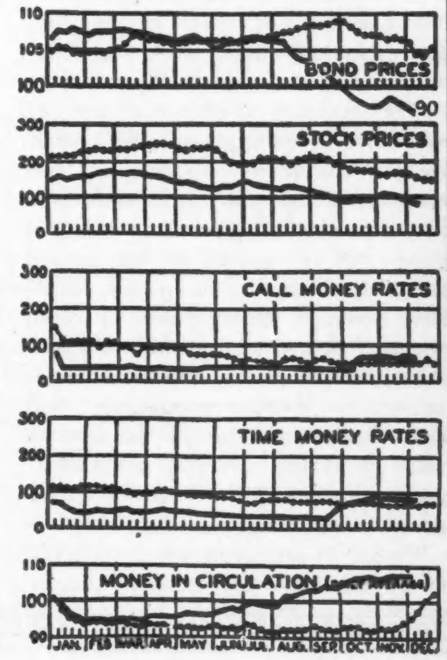
**With the exception of Fisher's Index, U. S. Department of Commerce charts (right) are based on 1923-1925 average = 100**




### BUSINESS INDICES




### FINANCIAL INDICES




"Prosperity will be fickle as a coquette"

# Business changes

**Economic stability will rest on agility in shifting attack to meet most capricious conditions**

by HENRY H. HEIMANN, Executive Manager, N. A. C. M.

The old adage that "there is nothing certain in life except taxes and death" will find intensive application in business in the next decade. Many industries, seemingly solidly entrenched, may awaken some morning to find that their trade has vanished and their products have become obsolete. The present foundation, which seems to certain industries as impregnable as the Rock of Gibaltar, may prove to be shifting, treacherous sands and require heroic and ingenious work unless the doom and destruction of their business is to be witnessed.

The changing character of business will never be more pronounced than in the years immediately ahead of us. Not many years ago you could drift with the tide and when general business was going well all shared in the general prosperity. That day has passed. Seemingly average management in times past has viewed with considerable satisfaction earnings, the result of its direction; but average management will be far back in the race in the years to come. Individual alertness, resourcefulness, courage will be needed as never before in our modern history.

We live in an age in which we build up by tearing down for very largely our progress issues from the destruction of old industries and the erection of new.

Tradition, which for years has ruled the business world and all human activity, has been broken down. Precedent is ignored. Tradition and precedent have always stood in the way of real progress and the alert manufacturer who will show a disrespect for these so-called old-fashioned authorities; will blaze the trail and leave the conservatives lost in the woods.

There can be no doubt about the future prosperity of business. This prosperity will be as fickle as a coquette. It will be selective and the reward will come to those managements which are scientifically alert and research minded, while those which slumber along in the old way are headed for certain extinction.

The business man of today and tomorrow must keep his eyes peeled and his ears open to the new order of things that is dissecting, changing, destroying and creating business. At no time will ingenuity in following science and research prove so essential to continued business success. And science moves fast—make no mistake about that. Its rewards accrue only to pioneers for as soon as a new product is discovered or a new machine devised, there is a rush for its use or distribution and it is only the pioneers who reap the real rewards for in just a short space of time the invention or product becomes generally used and the profits are passed on to the consumer by way of lower price leaving the real rewards safely deposited in the surplus accounts of those who had the courage to pioneer the product or method.

The changing character of business —first of all science itself ever restless for pushing onward—disturbs the old order of things. The necessity of yesterday becomes the antique of tomorrow. It is no respecter of industries. It is busily engaged in the processes of developing substitutes. It is an ally of obsolescence and the plant that might be efficiently equipped today through invention may be antiquated tomorrow. It annihilates distance. Our own nation, figuratively speaking, was three months wide at the beginning of the Civil War; three days wide with the coming of the railroad; twenty-four hours wide with the invention of the airplane and one second wide since radio has been invented.

Another factor unceasingly working on the changing character of industry is the rapid change in habits and fashions. Short dresses mean less wool consumption but likewise increase the sale of silk hose. Bobbed hair nearly ruined the old-fashioned hairpin industry but ingenious manufacturers devised a pin to fit the bobbed head. The old-

**" 'Hamp, cain't you help me hold this here. I'm about to drop it!' 'Why, Mirandy, I'm sittin' mighty comfortable now, cain't you make it?' Many business men in industries who think they are sitting very comfortably now will awaken some morning to find their trade vanished"**

fashioned petticoat and corset were shunted into the antique department through style changes and health measures.

A third factor in the changing character of business is the changing method of distribution. No arm of industry is going to be given more consideration during the years ahead than the problem of distribution. Those who are successfully solving this problem are going to cash in tremendously. As a matter of fact the entire depression today is merely brought about through the lack of proper development of distribution plus unsound credit practices. The cost of getting goods to the ultimate consumer has increased more than three-fold in the last half century. We have been lending all of our thought to the problem of production and the field of distribution has scarcely been touched. Here enters the chain store, the branch house and many other variations.

Social evolution is an ardent ally of the changing character of business. Modern transportation, improved highways and higher standards of living constitute social evolutions that are revolutionizing industry. With modern transportation and improved highways, for instance, the mail order houses with their alluring catalogues did not find the measure of appeal that those silent salesmen had previously enjoyed. The farmer much preferred driving to a central market where he could see all the goods displayed before him and there make his selection. The old statement so frequently heard that the cross road store was dead was suddenly found to be a fallacy. In this instance, management was alive and alert and when the cross road trade would not avail itself of the opportunity of depositing an order in a rural free delivery box they in effect brought their catalogue out into the agricultural districts by establishing cross road stores of their own.

Exploitation of consumer purchasing power had its effect in recent abnormal expansion of business. A considerable amount of study as to program with respect to this will be in order during the years immediately ahead of us. This is linked with the changes in styles, for business seems to be getting out its yearly model and whether you like it or not you join in the procession to keep in style.

In times past we could look for our competition from within our own industries. In the years ahead it behooves industry to work as a unit. The change in the human factor has altered this for competition arises where least expected today—brick competes with lumber, silk with wool, beet with sugar, cement with steel and so down the line and after each innovation there are those who are so accustomed to the old ways that they refuse to join the procession, setting up an alarm in which they decry the new order of things and predict it will lead to eventual destruction. On the other hand, the courageous and the resourceful keep to their new order of things until their method becomes a standard and the old order becomes obsolete.

During the past few years, business has had its eye closely riveted to volume rather than to earnings. That order, too, will pass. The principle of a nation wide distribution will be submerged to the question of whether such distribution is profitable. It behooves every manufacturer to consider, after careful analysis, his best sales territory and to pass judgment on whether it is best to strive for a lower volume with concentration in mind so as to produce satisfactory earnings or continue in the old national distribution policy developing a large volume of business with its consequent reduced margin.

*(Continued on page 31)*

# Depression's

## Gold: not guilty

**"The explanation of this sharp decline in commodity prices is not in maldistribution of the world's monetary gold."**

**by EDWIN W. KEMMERER,**

**of Princeton University, whose solution of the gold problems of thirteen nations in twenty years has established him as a gold authority without a peer.**

For a period of approximately a quarter of a century, ending in 1896, there had been a pronounced and almost continuous decline in price levels in all gold-standard countries of the world—a decline that was due chiefly to a world scarcity of gold—in other words, to a failure of the world's gold production to increase sufficiently to enable the world's monetary gold supply to meet the increasing demands placed upon it. However, largely as a result of the great increase in gold production beginning in the early nineties, coming chiefly from South Africa, price levels in gold-standard countries began to rise about 1897 and, as a result of annual increments averaging about 2.6 per cent (compounded), the wholesale commodity price level in all gold standard countries of the world rose from 1897 to 1913 by 40 to 50 per cent. Had there been no war and had this rate of increase continued until 1919, the price level in that year would have been 117 on the basis of 100 for 1913. It actually was 206 in the United States in 1919. And this, despite the fact that, as a result of wartime influences, the world's production of gold had declined by nearly 28 per cent from 1913 to 1920.

This extraordinary advance in prices between 1913 and 1920 was due, to some extent, to the greatly increased efficiency of the monetary and credit systems, resulting from the establishment of the Federal Reserve System, but chiefly to the withdrawal of gold from circulation throughout the world during the War period and to the vast monetary and credit inflation which the world built upon its limited gold base during the War and the two years immediately following. The estimates made in my book on *High Prices and Deflation* for the period 1913 to 1919, showed an increase in the physical volume of business in the United States of about 10 per cent, in the monetary circulation of 71 per cent and in bank deposits of 120 per cent. Cash reserve percentages held against deposits were approximately cut in half, and, despite our greatly increased stock of monetary gold in the United States, there was a large decline in the ratio of gold to the country's total cash and to its total supply of exchange media.

The collapse of 1920 was due to the removal of the artificial wartime inflation stimuli, to "a taking account of stock" on the part of the world, and a realization that the world's credit was grossly overexpanded and that there was nothing like enough monetary gold in the world to maintain such an extended credit structure and such abnormally high prices, when once the world should return to the gold standard. The credit balloon was inflated to the bursting point. Any slight increase in pressure was likely to make it burst. The source of the particular pressure that caused it to burst is a matter of little importance.

In a little over two years, the United States recovered, superficially at least, from the crisis of 1920 and the ensuing depression; but most other countries were much slower in their recovery. It was inevitable that many years should pass before the world would recover almost completely from the enormous economic losses resulting from the greatest war in history and from the great maladjustments in its productive and distributive machinery which that war caused. America was not hit so hard as Europe. It recovered more quickly. Our own premature expansion, covered by the so-called Coolidge prosperity and the subsequent bull-market period, with their resulting large extension of credit to Europe and Latin America, postponed the inevitable day of complete World War liquidation for some years, and we are now finishing the job. While the prices of securities were tremendously inflated during this boom period, it is doubtful whether the prices of commodities in general were greatly inflated, although there can be no question but that the prices of many particular commodities were unduly high.

By 1921 the wholesale price level in the United States had settled down in the neighborhood of 138 to 148, (taking the 1913 base), where it remained until the end of 1929. Here was a nine-year period of unusually stable commodity prices, and the price level averaging for the 9 years 141 was not

(*Continued on page* 43)

# price debacle

by IRVING FISHER
of Yale University

## 3 D's: guilty

**"The depression is a matter of the three D's: Debt, Distress-selling, Deflation—working in a vicious circle."**

The present depression should go down to posterity as "The Great Gold Mystery". For when gold is abundant it really ought to be cheap and boost prices. But in France and America, it is abundant yet dear, downing prices and booming the gold mines.

We shall find the solution, I believe, in the colossal volume of public and private debts. This takes on significance when we find smaller prototypes in earlier and smaller depressions—a fact which hitherto has received scant attention. For I am inclined to think that the long "missing link" in the "cycle theory" is the factor of over-indebtedness.

Over-indebtedness is, of course, not the only factor in the case. There are many others. Yet they are all more or less related to this great over-powering factor of debts.

Many blame this world-depression on the mal-distribution of gold. And this mal-distribution is in turn ascribed to the Yankee tariff, which, as we know, was set up largely for the express purpose of preventing Europe from paying her huge debts to us in its most available medium: goods.

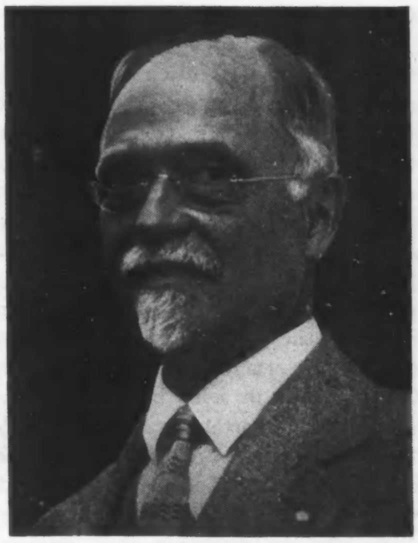
These explanations, and many more, are no doubt largely correct. But the chief factor is the common factor, debt—debt and what is implied in debt, particularly distress selling and deflation.

We may alliterate and say the depression is a matter of "The Three D's": Debt; Distress-selling; Deflation—working in a vicious circle.

It all goes back to the Treaty of Versailles, which first hung a mill-stone of debt on the neck of Germany; as well as back to the other war debts—the inter-allied debts, hanging still on the neck of all Europe. To these were added the private debts to us contracted by European municipalities and industry and, before the stock market crash, the millions of brokers' loans.

Then came distress-selling—a procedure which has the peculiarity of making the very law of supply-and-demand perverse. Normally you sell your stocks, or other goods, because supply-and-demand has ground out a price which pleases you; but when you are tortured by debt, you perform the same operation for precisely the opposite reason; not the attraction of high prices, but the compulsion of low prices which menace your solvency. When you are joined in this by a million other citizens equally distressed, the selling becomes torrential. Prices go down before it. Their figures no longer register true values. Discreet citizens are sucked in with the indiscreet.

Then the unstable dollar gets in its work. Lean prices mean a bloated dollar. That is what is the matter. The swollen dollar swells *all* debts, including the most conservative. While your back is turned your debts start growing faster than you can pay the interest. For example, in 1925, Britain became bound to America in the sum of 4 billion and 600 million dollars. What does she owe us now? Less? It ought to be less; for she has punctiliously kept up her interest payments, totalling over one billion, and paid besides 175 million on the principal, leaving 4 billion, 425 million dollars. But no! That is true only in current uncorrected dollars. But in terms of the dollar of 1925, when Britain promised to pay, she owes us, not 4 billion and 425 million, but 6 billion and 700 million—an actual increment in debt burden of 45 per cent, due to the 50 per cent and more swelling of each surreptitious dollar in her debt. And the American farmer is in the same case. In other words, every debtor's burden, in terms of real goods, has increased.



Now we come to deflation. For after your distress-selling, what do you do? You carry the meager proceeds to the bank—not for deposit, but for payment, which deflates deposits and the check circulation based on deposits. Here, then is the vicious circle of Debts, Distress-selling and Deflation.

So prices deflate, profits vanish, bankruptcies spread, gloom settles, and finally production, trade, and employment are cut down. All this could have been prevented—partly or wholly. But our Federal Reserve, despite its generally fine record, this time failed us. It shut the barn door only after most of our horses had been stolen.

But need the devastation go on? No, for there are at hand two well defined means of halting it. I refer to debt-reduction and a technical attack upon inflation as such. Already Mr. Hoover has made admirable beginnings at both

(*Continued on page 47*)

# Current survey of credit conditions

**by W. S. SWINGLE, director of the Foreign Department and the Foreign Credit Interchange Bureau of the National Association of Credit Men.**

At the close of the year, the survey of credit and collection conditions in twenty-one Latin American markets indicates a continued decline. This survey is the 13th quarterly survey compiled from the opinions of members of the Foreign Credit Interchange Bureau of the National Association of Credit Men.

A continued unfavorable trend in the markets covered is disclosed. None of the countries show an improved classification, and as a matter of fact, declines in the index figure on credit conditions are shown in practically every case, with eighteen out of the twenty-one countries surveyed moving lower. For the first time since these surveys were instituted, over two years ago, none of the Latin American markets covered are classified as Good or Fairly Good. While in some individual cases, opinions of important exporters indicate the feeling that credit conditions in some markets are Good or Fairly Good, these opinions are more than over-balanced by the general run of comments received.

The lowered purchasing power, discontinuance of the gold standard by European countries, and drastic exchange control and moratoria, have had a further adverse effect in many of these markets. Basically, economic conditions are probably gradually reaching a sounder basis, with less declines in basic commodity prices, but the lack of finances and borrowing power have had their effect. Various defaults in investment services have also been reflected in commercial transactions.

On the favorable side, the political background appears to be more stable than for many months past, and it is quite possible that as the effects of exchange control become more apparent, additional monies will be available for taking care of commercial business, even though there seems to be no likelihood of marked improvement in exchange rates in the immediate future.

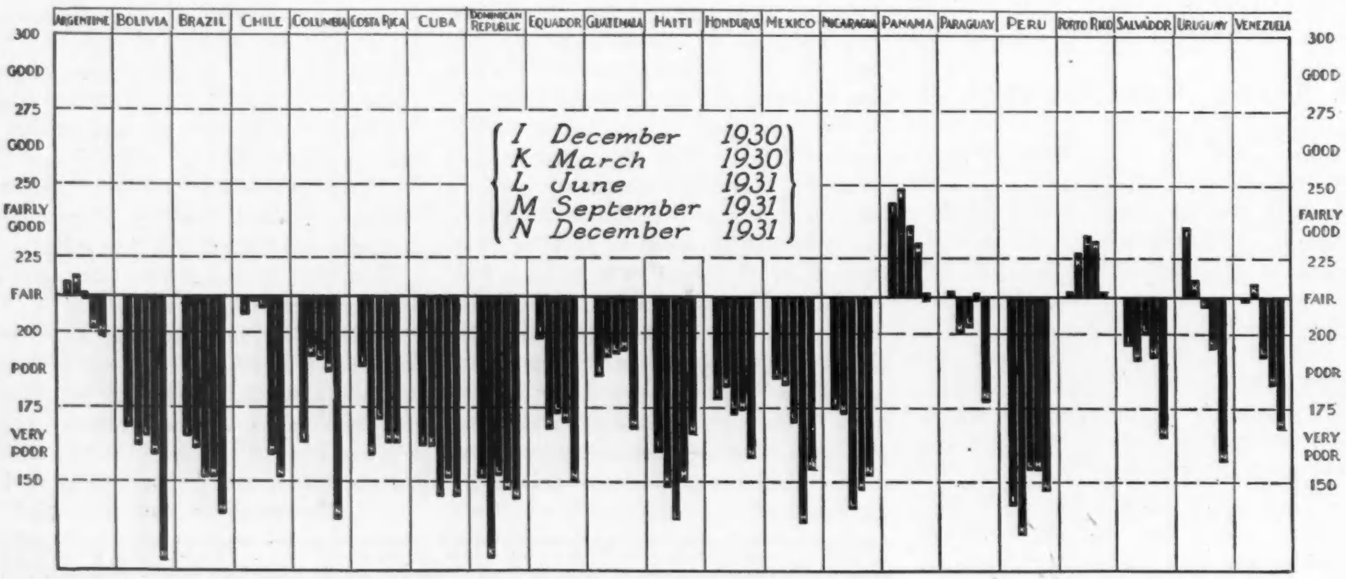
By referring to the accompanying chart, it will be noted that Porto Rico and Panama, while they are only in the Fair classification as far as credit conditions are concerned, nevertheless now head the list of Latin American countries. Argentina and Paraguay have shown further declines, and in the case of Argentina, just sufficient to bring it in the lower classification of Poor. Uruguay, Guatemala, Salvador, Costa Rica and Venezuela have shown declines and are now in the lowest classification. Uruguay, due to exchange conditions and the moratorium, shows a considerable drop. Mexico has shown some improvement, and although still in a low classification, has nevertheless come up from the bottom of the list and has been replaced in the lowest classification by Bolivia.

The collection index indicates that fourteen of the twenty-one countries show declines. As mentioned above, exchange control, optional moratoria, and difficulties of this nature, have seriously hampered collections, although many exporters continue to report Prompt or Fairly Prompt collections in all of the countries, but in most cases these are more than over-balanced by the reports of slow returns from outstanding items.

One factor which is becoming increasingly apparent is the continued moral stability of the responsible Latin American business houses, and while collections may be delayed due to no fault of the buyer on account of economic conditions and exchange difficulties, which are beyond their control, there is no evidence of any general decline in the recognition of obligations, and in fact in the great majority of cases indications are that as conditions permit, obligations will be paid.

At this time it is interesting to look back over the conditions existing one or two years ago. At the close of 1929, the 5th quarterly survey made at that time indicated that the decline in credit conditions had just started. The classifications given at that time were as follows:

**Credit conditions in twenty-one Latin-American countries scaled on the basis of the credit condition index figures which express mathematically the combined opinions of individual reports on each country.**



# and collections in Latin-America

Good: Uruguay, Panama, Argentina. Fairly Good: Chile, Paraguay, Peru, Honduras, Mexico, Venezuela, Costa Rica, Bolivia, Salvador, Guatemala. Fair: Brazil, Porto Rico, Ecuador, Nicaragua, Dominican Republic. Poor: Haiti, Cuba, Colombia.

The re-alignment of credit conditions in the year 1930 reported at the close of that year, as indicated in the 9th quarterly survey in December, 1930, showed that at that time none of the countries were classified as Good, although Uruguay and Panama were Fairly Good. Classified as Fair were Argentina, Paraguay, Porto Rico, Venezuela and Chile, and credit conditions were reported as Poor in Ecuador, Salvador, Bolivia, Costa Rica, Argentina, Mexico, Honduras and Nicaragua. Brazil, Colombia, Cuba, Haiti, Dominican Republic and Peru had at that time reached a classification of Very Poor.

On the question of collections, these have been relatively better than general credit conditions might indicate. However, in the current survey Porto Rico and Panama are the only countries in which payments are at present generally classified as Prompt, and by referring to the collection chart it will be noted that Haiti, Guatemala, Argentina, Paraguay and Costa Rica are in the Fairly Prompt group. Costa Rica has shown a considerable decline in the index.

In looking back over the previous surveys to December, 1929, the collection index indicated that Prompt payments were reported in Uruguay, Panama, Argentina, Paraguay, Chile, Mexico and Honduras. Fairly Prompt payments were noted in Bolivia, Brazil, Venezuela, Costa Rica, Peru, Guatemala, Salvador, Porto Rico, Nicaragua, Dominican Republic and Ecuador; with Haiti and Cuba showing Slow payments, and Colombia, Very Slow.

The changes during the year of 1930 brought about a re-classification of collection conditions, with collections classified as Prompt from Uruguay, Panama, Argentina, Porto Rico, Bolivia, and Venezuela; as Fairly Prompt from Chile, Ecuador, Salvador, Paraguay, Costa Rica, Cuba, Guatemala and Mexico; and Slow from Brazil, Colombia, Dominican Republic, Haiti, Honduras and Nicaragua. Peru was the only country in the Very Slow group.

To readers of the Credit and Financial Management and the Credit Monthly in which the graphical charts have been appearing since the issue of February, 1930, these charts may now be placed together to form a continuous graphical record of credit and collection indices for the past two years. As a matter of fact, the chart in the February, 1930, issue carries the survey back to September, 1928.

It may be explained for the benefit of those who may not have a record of the basis on which these surveys have been made, that the credit survey is based on reports of Good, Fair and Poor, compiled into percentage figures of all those reporting, with the results indicated in the index figure, using the same basis as that of the previous surveys for comparative purposes.

The index of 250 or better covers a percentage of not less than 60 percent good and 40 percent fair, with the classification of "good."

The classification of "fairly good", covers the index of 250 to 225 with the percentage of 25 percent good, 75 percent fair.

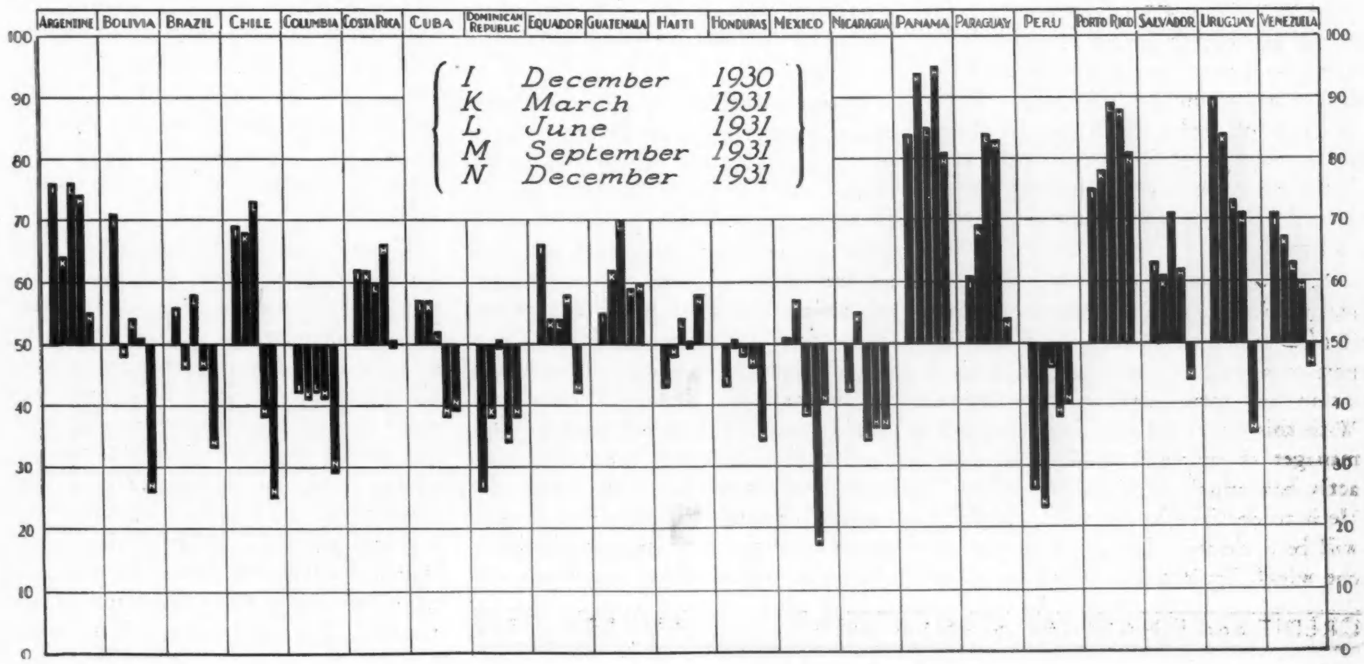
Between the index figures of 225 and 200, the classification is "fair", with a minimum of 100 percent fair.

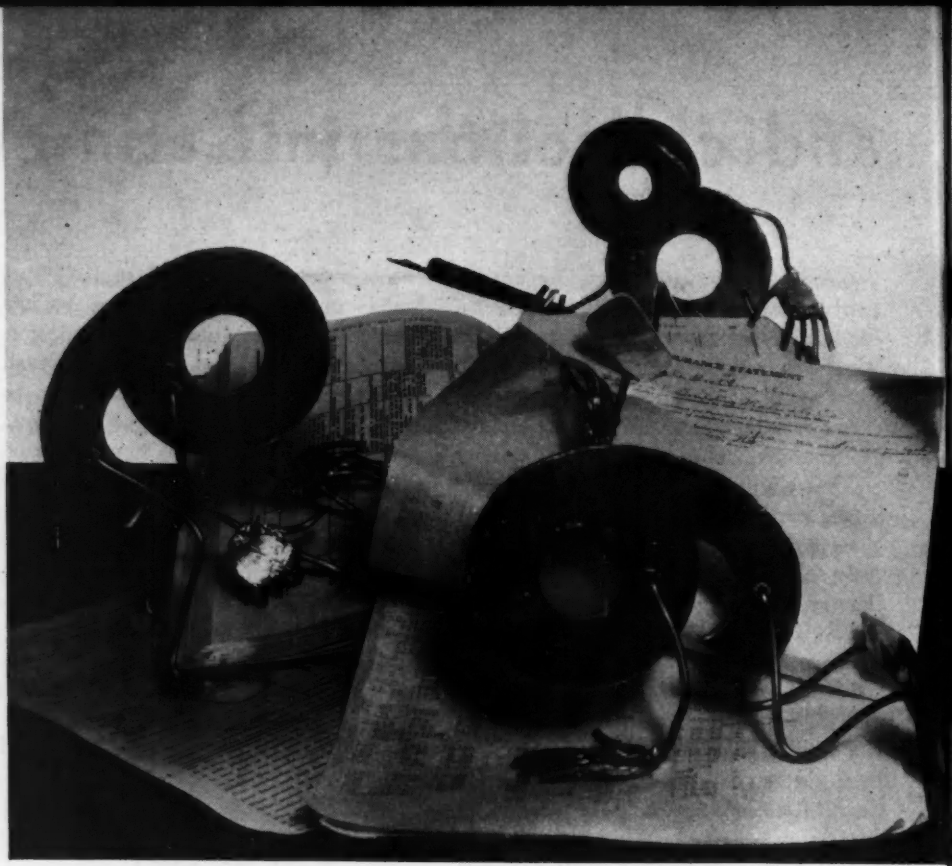
For the classification of "poor", the index figure is 200 to 175 with a low percentage of 75 percent fair, 25 percent poor.

Below this, the classification is "very poor."

In graphing collection conditions, the index of 50 percent prompt or fairly prompt has been taken as the mean for comparison. An index better than 50 percent prompt or fairly prompt appears above the mean line in the graph, while a less favorable index runs downward from the mean position.

**Collection conditions in twenty-one Latin-American countries at five different periods. The scale numbers are based on the percentage of reports of prompt collecions for each country during each survey.**





Third in the series of articles on credit calculus by HARRY G. ROMIG, research statistician.

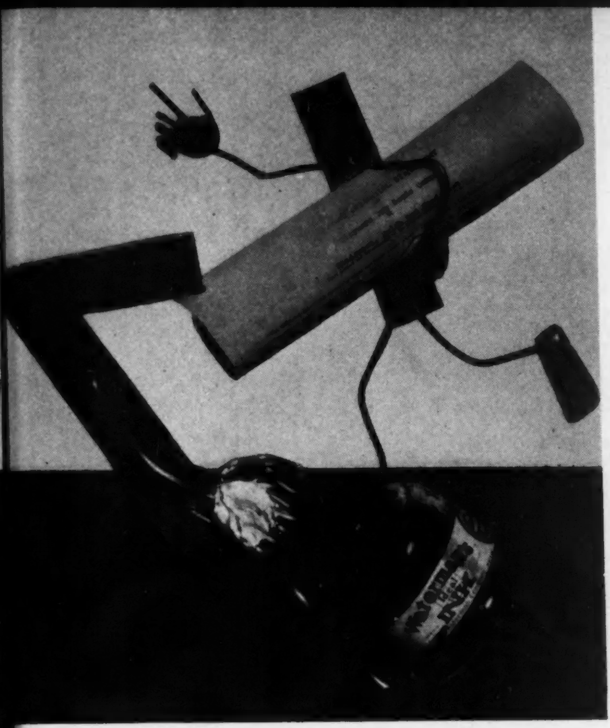
# Statistics' aid in credit analysis

When a new account asks for credit, the credit manager is confronted with the question whether any credit should be given or what should be the limit placed on the amount of credit. Naturally the customer will attempt to place himself in the most favorable light and the references which he may give will be those who will give a favorable report. Such credit is more or less of a personal nature and depends on the integrity of the individual asking for the credit. There is a type of credit which may be placed on a truly scientific basis so that very little guesswork or judgment enters into the decision concerning the giving of credit.

When a business which has been operating for some time asks for credit, it may present a balance sheet, the report of some bank on its financial condition or some similar information. With this bit of information, the credit manager is supposed to determine exactly how much credit shall be allowed. He is to decide whether such a business will be a chronic slow-pay customer or one which liquidates its debts on or before they are due. These decisions must be made by an examination of the condition of the business at the current period. Some historical information may be available, but often there is only one report upon which the firm is rated. Naturally the firm will try and present the most favorable impression possible, so that such a financial statement will be the best statement which can be derived from the available data.

It seems desirable to give the credit manager more information upon which to rate each business which applies for credit. If the credit manager desires to make an unbiased report of each firm, he should request each firm to prepare tabular or graphical information concerning the most important phases of the firm's business activities. These should cover, if possible, information for the past five years. These charts should give the monthly average and standard deviation values, together with limit lines based on three times the standard deviation placed about the expected level for each item of the business, or at least average, maximum and minimum values for each item under consideration. Where doubt exists concerning any values, the individual results upon which the average values are determined should be tabulated. The method of computing averages and standard deviations has been given in previous articles, as well as how to determine the range within which 0.9973 of the observed results are expected to fall, if the universe from which the results are obtained is a Normal Law universe. If this latter condition is not met and the distribution is quite distorted, we know that the probability value of 0.9973 will not fall below 0.90.

If each item is well controlled, both for the average values and the standard deviation values, there is no question concerning the giving of credit and the applicant will probably be considered a Class A risk. By control, we mean that all the observed results must fall within the limit lines obtained by adding and subtracting respectively three times the standard deviation for averages and the standard deviation for standard deviations from the expected values for the average and standard deviation. The trend curve will tell what



amount of credit has been required in the past and what the immediate needs are.

It has been suggested that no credit will eventually be allowed to any firm which has not maintained control over the important items in its business. This seems rather a drastic rule, but at least it has merit, since it will not keep a lot of firms in a half-solvent state when they should close their doors or adopt a new business policy. Under these conditions, since each item is controlled, we can state rigorously that the future of such a firm can be accurately forecast. If the business is steadily increasing, credit relations should be arranged so that at regular intervals more credit may be obtained, whereas if the business is static or decreasing, quite different credit arrangements should be made.

If some of the averages and standard deviations are not within their respective limit lines it is necessary to determine what caused each item that is outside the desired range to be abnormal. If the cause can be found and eliminated, the item in question soon will be controlled. If an overall picture is desired for comparison between two firms in the same class of industry, who do not have all their values within the desired range, an overall index in terms of t can be determined as outlined in a previous article, "Progress Evaluation." If the firms submit data which are almost identical in form, it may be desirable to establish a common level for each firm to use in preparing their report. Thus the t Index finally obtained gives values which enable the comparison desired to be made.

So far we have mentioned only the tangible items which can be measured in terms of numbers. There are many other factors which enter when the question of credit arises. How long has the firm been doing business? What has been his rating with respect to credit with other firms. Why is he asking for credit at the present time? Many times a firm changes from one concern to another because of the nature of the collection procedure used by the firm from which he has been buying. He wishes a more liberal credit policy. When he is having trouble collecting from slow customers, he in turn wishes a little leeway before extreme demands are made on him to pay his bills. This is particularly the case with a firm which works on a narrow margin of profit and must make a large number of turnovers during a year in order to make any profit. Thus it is clear that the nature of the business itself needs careful consideration. All these factors may be converted to numbers by the proper selection of weights and indices thus making it possible to give a credit rating to each applicant.

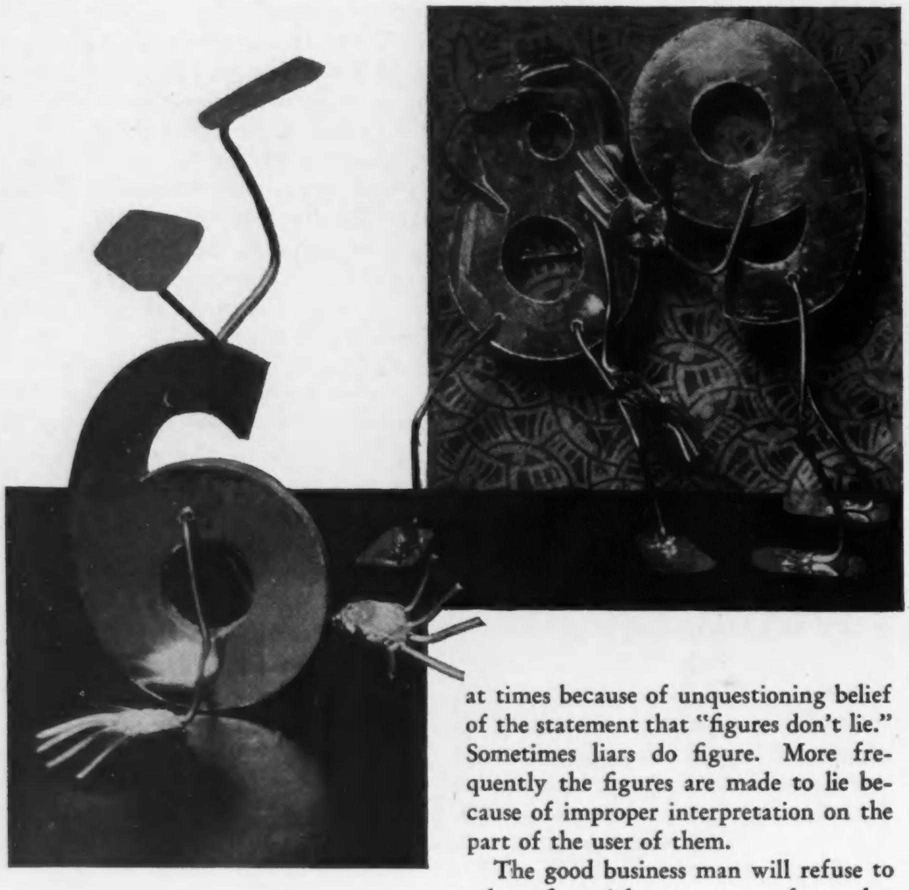
Let us consider how we would rate a particular firm so that we may gain some idea how to determine weights and indices for the various items in question. Firm A has been in business for 20 years and presents monthly balance sheets covering the past five years. The data which is submitted may be arranged as follows:

ASSETS
(Thousands of Dollars)

| Month | Cash | Investments | Accounts Receivable | Inventory | Property | Deferred Charges |
|---|---|---|---|---|---|---|
| 1926 | | | | | | |
| Jan. | 801 | 1,470 | 1,715 | 613 | 3,510 | 355 |
| Feb. | 655 | 1,521 | 1,823 | 642 | 3,700 | 321 |
| Mar. | 898 | 1,863 | 1,947 | 695 | 3,700 | 419 |
| Apr. | 586 | 1,342 | 2,106 | 782 | 3,920 | 536 |
| May | 721 | 987 | 1,934 | 657 | 3,470 | 485 |
| June | 459 | 1,056 | 1,720 | 541 | 3,300 | 427 |
| July | 650 | 1,244 | 1,679 | 425 | 3,625 | 372 |
| Aug. | 783 | 1,379 | 1,852 | 578 | 3,535 | 104 |
| Sept. | 928 | 1,319 | 1,946 | 416 | 3,310 | 342 |
| Oct. | 1,057 | 1,196 | 1,795 | 492 | 3,754 | 247 |
| Nov. | 864 | 1,785 | 1,958 | 956 | 3,530 | 270 |
| Dec. | 718 | 1,638 | 2,325 | 403 | 3,846 | 922 |
| Average | 760 | 1,400 | 1,900 | 600 | 3,600 | 400 |
| Std. Dev. | 157 | 259 | 175 | 156 | 186 | 191 |
| 1927 | | | | | | |
| Jan. | 782 | 1,527 | 2,057 | 519 | 3,932 | 857 |
| Feb. | 857 | 1,403 | 1,985 | 593 | 3,768 | 764 |
| Mar. | 941 | 1,638 | 1,832 | 642 | 4,120 | 931 |
| Apr. | 823 | 1,215 | 1,756 | 725 | 4,075 | 886 |
| May | 711 | 846 | 1,924 | 837 | 4,280 | 742 |
| June | 633 | 1,055 | 1,641 | 791 | 3,965 | 657 |
| July | 546 | 1,522 | 1,539 | 864 | 4,154 | 529 |
| Aug. | 428 | 1,317 | 1,788 | 750 | 4,300 | 683 |
| Sept. | 575 | 1,731 | 1,902 | 826 | 4,286 | 820 |
| Oct. | 687 | 1,053 | 2,482 | 778 | 4,320 | 901 |
| Nov. | 719 | 1,224 | 2,318 | 860 | 4,230 | 855 |
| Dec. | 698 | 1,669 | 2,536 | 935 | 4,370 | 975 |
| Average | 700 | 1,350 | 1,980 | 760 | 4,150 | 800 |
| Std. Dev. | 136 | 267 | 304 | 117 | 177 | 124 |

*(Continued on page 35)*

# Figures



**Second in the series of articles on the weight of the human factor in basic economic equations**

**by DAVID A. WEIR,**
**Assistant Executive Manager, N. A. C. M.**

While the late General Lord was Director of the United States Budget Bureau, I heard him tell the story of a friend who came to his office and said: "General Lord, you know that we have three children at our house and I am hoping that we will not have any more." General Lord replied: "I am surprised to hear you make such a statement. I always thought you liked children." "I do," said the friend, "but I have been reading some of these government statistics. According to the figures every fourth child born in the World is a Chinaman and I'm not taking any chances."

Of course this little story is too absurd to be exactly truthful; but conclusions almost equally absurd are drawn at times because of unquestioning belief of the statement that "figures don't lie." Sometimes liars do figure. More frequently the figures are made to lie because of improper interpretation on the part of the user of them.

The good business man will refuse to take a financial statement at face value without taking into consideration the honesty and ability of the one who prepared the statement; but the same business man will often swallow in their entirety statistics put out by those who are propagandists seeking to prove certain points for selfish purposes. It is self-evident that no more confidence can be placed in figures than can be properly bestowed upon the ones preparing them.

Even if we assume that the one preparing statistics is competent and that he has no ulterior motive in view, figures are valueless unless they are properly related to other figures and unless the one using them is competent to interpret them correctly. They are instruments to be used, not deities to be worshiped; and yet we often seem to bow supinely before His Majesty, the "Table of Statistics." The clincher in many arguments has been "I have figures to prove what I say." Statistics, like segregated passages taken from the Bible, can be found to prove almost anything that the user of them hopes to prove.

Some years ago, a writer in one of our magazines tried to show that co-education in our colleges and universities does not result in the introduction of women to posts of influence in the world of affairs. "Why," he said, "in one institution which has experimented recently with co-education, fifty per cent of the girls who graduated in one year married members of the faculty." The writer neglected to state, however, that the year mentioned was the first year of the co-educational policy and that there were exactly two girl graduates.

So far as business is concerned, one of the most harmful misuses of statistics has occurred in connection with figures on production. All too frequently these have been set up as absolute indices of the prosperity of the country. Fortunately we are learning the fallacy of that line of reasoning. Whether the lesson learned will "stay put" after we have emerged from business depression is a question.

During a time of inflated prosperity, production figures are looked upon as criterions of business increase. When properly related to other factors, such a conclusion is justified. It should be apparent, however, that the production of 1,000,000 or 10,000,000 automobiles per year or per week can never bring prosperity. Such figures have often been a factor in leading us into an orgy of inflated credits, inflated inventories and inflated plant expansion because of the arousal of irrational optimism based upon incomplete facts. All too well we know just now what happens when the bubble of inflation bursts. Production figures are not an indicator of progress unless they are coupled with comparable figures on purchasing power, consumption and probable future demand. Properly used, figures on production during a boom period may often serve as red lights, warning us to guard against the excesses which lead ultimately to collapse and depression.

In the field of distribution, sales volume figures are equally guilty of distorting our picture of economic conditions. Many businesses have failed because the executives followed a policy of measuring progress by the yard stick of greater sales volume.

In the first place, sales volume means nothing unless it is taken in conjunc-

# do lie


"bad medicine" unless properly administered and assimilated

tion with changes in the purchasing power of money. In the second place, sales volume increase is grossly misleading unless there is an advance either in present or potential net profits. It is trite to reiterate that net profits alone provide the wherewithal for the purchase of commodities. But trite though it may be, we still find literally thousands of those engaged in business butting their heads against the stone wall of "profitless prosperity" — and then wondering why their heads hurt.

Several years ago I operated the business of a manufacturing concern under Court Order, until such time as reorganization or a liquidation could take place. The man who had been head of the business could not understand then, and probably cannot understand today, why it was necessary that the business be liquidated. He had figures to prove that the product, manufactured for sale at a list price of $400, cost only $120 to produce. As a matter of fact, due to abnormally high sales cost, trade-in allowances, excessive credit losses and other unfavorable factors, every machine produced put the company an additional $20 in the "red." From my own observation of and experience in the handling of other businesses under similar conditions, I am convinced that there are many business executives who use their figures no more accurately or completely or wisely than did this particular individual. Some are production-minded and can see production as the only important factor. Others are sales-minded and do not dig deeper than the sales figures. In either case, a distorted picture is given which ultimately leads to failure.

During 1930 and at least a part of 1931, we were somewhat over-fed with assurances of an early return of prosperity. Many times these predictions were prefaced with the statement that the country is "basically sound," for two reasons. First, "There is just as much money in the country as ever." Second, "There is just as much wealth in the country as ever." In both cases it was easy to provide statistics to prove the truth of the statements made.

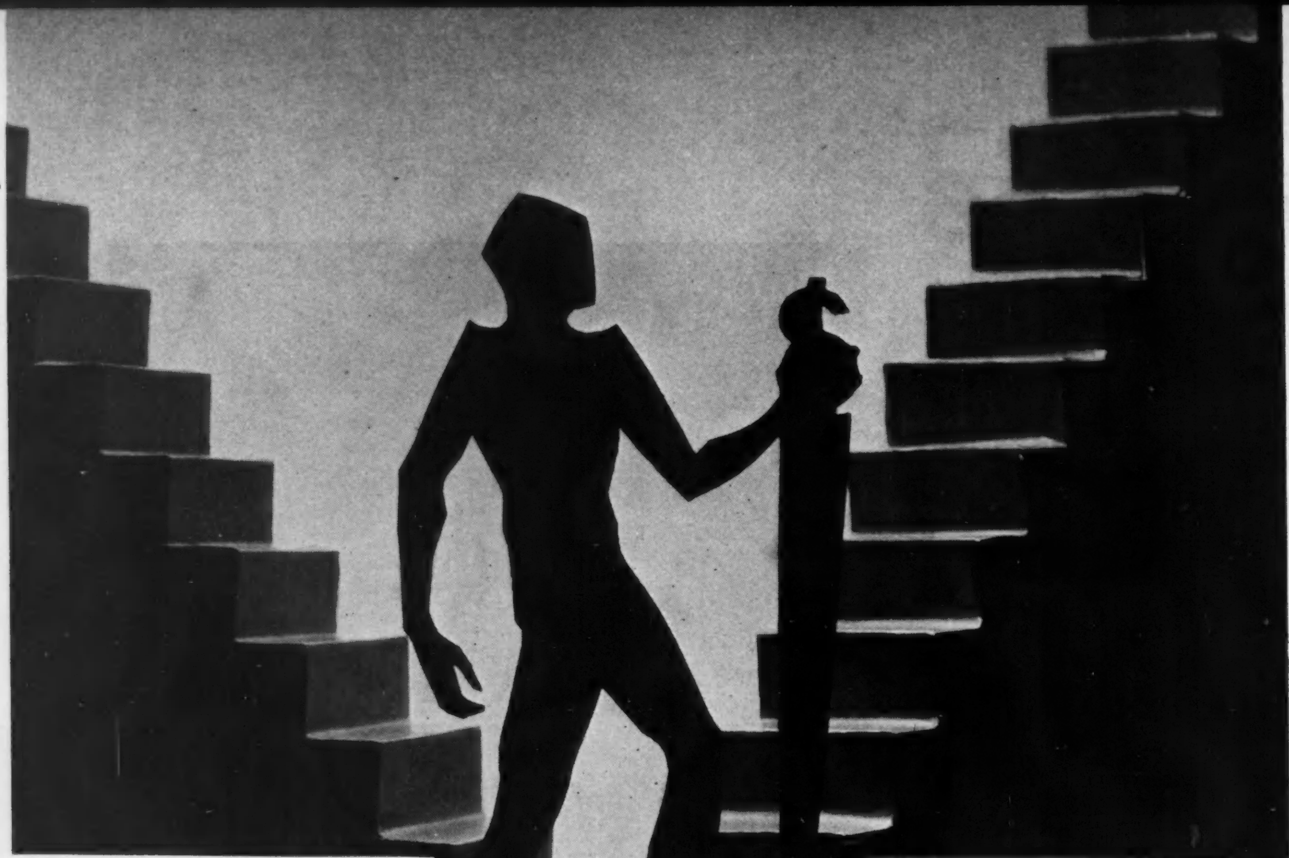
It does not require any very profound reasoning to see the fallacy of assuming that the country is basically sound merely because there has been no decrease in the amount of money. If the so-called money is merely inflated currency without a sound basis for its issue, it is evident that the amount of such pseudo money has little relation to prosperous conditions. The experience of various European countries with such inflation in recent years once again taught us that the amount of the medium of exchange in circulation is of little or no importance unless the purchasing power of the medium is taken into account.

In our country, however, the condition was a different one in as much as we had an abundance of gold and little or no dangerous currency inflation. Even under these conditions the amount of money is only a part of the picture. The other part, which cannot be ignored if we are thinking in terms of good business conditions, is the distribution of that money.

There is, of course, more truth in the supposition that the amount of wealth within a country may be taken as an indication of basic soundness. However, whether we are discussing the amount of money or the amount of wealth, a very simple illustration will suffice to show that the mere existence of either or both is not a strong enough foundation for business progress. If you are thinking of opening a store in one of two communities and figures show that in each community the total wealth of the inhabitants amounts to a million dollars, you might assume from this that each community would represent an equal opportunity for sales. If you find, however, that in one community there are 10 people with $100,000 each and in the other 1,000 people with $1,000 each, you will be more likely to choose the latter, feeling that the opportunity for sales there will be greater.

This little illustration, when expanded to take in business throughout the country, illustrates the fallacy of building too strongly upon the assumption that since there is no decrease in wealth there is no basically unsound condition. The distribution of the money or the wealth

(*Continued on page* 43)



# up
# back
# Steps

**By ALLARD SMITH, Executive Vice President, Union Trust Company, Cleveland, Ohio**

The recent sharp rise in the price of wheat, when both cash and future quotations gained nearly 50 per cent in 30 days, gives striking illustration of the extraordinarily close relationship which has developed between commodity prices, world commerce and international credits. The perfection of communication systems and the growth of business dealings between all the civilized nations of the globe have created a condition where all are more or less affected by the same things.

Wheat prices in the early days of October stood at the lowest level of more than half a century. Other commodity prices were similarly depressed, world trade was at a low ebb and business and credit conditions were in the depths of depression. But within 30 days rising wheat prices had injected a note of hope into the entire situation and the general effect is startling.

The first result of a month of rising wheat prices, of course, was to add something more than an average of $10,000,000 a day to the purchasing power of wheat owners, divided between farmers still holding the greater share of the current crop and other agencies holding not only the balance of this year's production but a sizeable carry-over from previous seasons. Added purchasing power in some direction was what the world had been looking for and with the suggestion of greater markets for all commodities other commodity prices fell in step and began to rise also.

From a world trade standpoint the most significant advance was that of bar silver, which had been at extremely low levels up to mid-summer. Cheapened by demonetization in India it was doubtless helped on the upward path when Great Britain foresook the gold standard for the time being, and its rise was accentuated by the improved tone in other commodities and the hope engendered that the world might be going back to work. Rising silver values immensely increased the purchasing power of India and China, leading possessors of that metal, and offered a promise of improved world trade.

How these developments in the commodity market affect credits is easily traceable. The transactions of the bond market for the first week of November, for instance, showed increases throughout practically the entire list. Significant is the fact that the greatest increases are shown in the prices of bonds of minor South American and European countries. These bonds, in the great world depression, had been quoted at but a fraction of their par values, because under depression conditions there did not seem any prospect of world trade which would permit those countries to even pay interest on their obligations. Rising commodity prices reflected favorably on their prospects and immediate rises in the quotations on their bonds were registered.

Land bank bonds also showed great improvement. These bonds, based on farm land mortgages principally, seemed to have little value with wheat quoted at 45 cents in Chicago, which meant likely not more than 20 cents at southwestern elevators. But the rise which was less than 50 per cent in 30 days on the Chicago market was about 100 per cent at the elevators where the

southwestern farmers have to sell their wheat. The farmer has the reputation of wanting to get rid of his mortgage obligations more quickly than the city man. When the farmer has the money he is anxious to pay off his mortgages and his improved financial status was reflected immediately in the prices of land bank bonds.

The improved bond market, starting with the suggestion of President Hoover for a central agency for rediscounting securities not acceptable to the Federal Reserve Bank and accentuated by the improvement in commodity prices and the more cheerful tone produced in all business circles, is the index of improvement in credit conditions, and that means of conditions in trade and industry generally, because credit is the basis on which all business of today is transacted.

Because that is true we find in unbalanced credit conditions one immediate cause for the depression from which we have been suffering the past two years. During several years preceding 1929 the volume of credit extended to various foreign countries had been great. During 1928 and 1929, however, a great progressive increase in manufacturing and a gigantic speculative movement in securities enlisted public participation, with the result that money which had been loaned on the obligations of various countries began to go into domestic channels.

This had two marked effects. Foreign trade began to be affected, partly because foreign countries cut down their purchases on account of their inability to obtain the credit which they had been enjoying and partly because what trade they were able to give they bestowed on those countries which were willing to continue to extend credit to them. The other effect was to build up the gold reserves of this country to an unprecedented point, because as the obligations of foreign countries were paid in gold renewal loans were decreased or not made at all.

A somewhat similar situation was brought about within our own country. Industrial expansion brought a fever of investment and speculation and credits which should have been extended to normal business operations began to be restricted because of the higher interest rates which the speculative markets were able to pay.

When the speculative bubble burst in the fall of 1929, depression conditions increased the maladjustment of credits. Bond prices sank to low levels, depreciating the values of bonds held by banks. In order to maintain their liquid condition banks have been compelled to restrict credit for ordinary industrial and commercial uses and at the same time frequently to dispose of their bond holdings, which naturally had a further depressing effect on bond prices. An unfortunate feature of the situation has been that banks, faced with the necessity of selling bonds to maintain cash reserves, have frequently chosen to sell government and other conservative issues rather than to take the greater loss on higher yield securities. Some which have found themselves with disproportionately large holdings of bonds for which there was little or no immediate market, have been compelled to suspend.

As the country emerges from the depression the processes which brought the trouble to a climax are reversed. Rising bond prices free the financial institutions from the need for conserving credits and the resulting encouragement to trade and industry gets credit back into balance, stimulates production and, production bringing about re-employment, stimulates consumption.

Recent months have brought a considerable readjustment of international credits and the United States stands in such position now that she may, if she will, take the banking leadership of the world, which has long been in the hands of Great Britain. This is because this country has demonstrated a financial strength not possessed by any other country in the world.

When conditions compelled England to forsake at least temporarily the gold standard the eyes of commercial and financial leaders all over the world turned to France and the United States, because of their possession of such an overwhelming portion of the monetary gold supply of the world. The fact that our gold reserves were larger than at any time in world history was in itself evidence of the confidence reposed in this country by other nations. Doubtless no inconsiderable share of that great gold reserve was the result of foreign nations wanting their cash where they felt it would be safe, and the amounts increased largely after Great Britain took her gold action.

Withdrawals of gold which commenced in staggering volume in September and continued at an unprecedented rate for a matter of some six or seven weeks furnished a demonstration of the strength of the American position. The country was like a large bank, on which some idle rumor starts a run, but which continues calmly to pay out on every demand until the run dies of its own weight. Every demand for the withdrawal of gold, or for its ear-marking to denote foreign ownership, was met as a part of the day's business and after a few weeks, when exports broke all records in history, the demands began to lessen without any extraordinary measures having been taken because none were necessary. America had demonstrated her ability to be the world's banker, whether she cared to make any effort to assume that position or not.

It is of course easy to trace the influence of international credit on such matters as our gold reserve or the quotations on foreign bonds. Sometimes it is not quite so easy to recognize the world complications which affect the prices of the things we ordinarily buy. A few months ago I was in one of our large department stores and my eye fell on a beautiful Chinese rug. Somewhat to my surprise I found that the price tag on it named a figure which was only about half what I knew the ordinary price to be. On inquiry I found that it was not an imitation, but that the price reflected the increased buying power of American gold standard currency in China, whose monetary standards were based on silver, then sadly depreciated.

World commerce and world credits are so closely associated that one cannot suffer without the other being affected. When the credit of one of the nations falters we may be able to buy their goods at a less price in our currency but at the same time they are unable to buy our goods because purchases take so much more of theirs. England discarded the gold standard for a time as a mild measure of inflation and immediately the effect was seen in their increasing export trade which set in motion a certain degree of industrial revival.

The rigid adherence of the United States, Canada and France to the gold standard will help to stabilize the currencies of the world, because it will give an undeviating standard by which international transactions may be measured. And the returning confidence beginning to be apparent in the United States will help set in motion a revival of trade throughout the world.

# checks

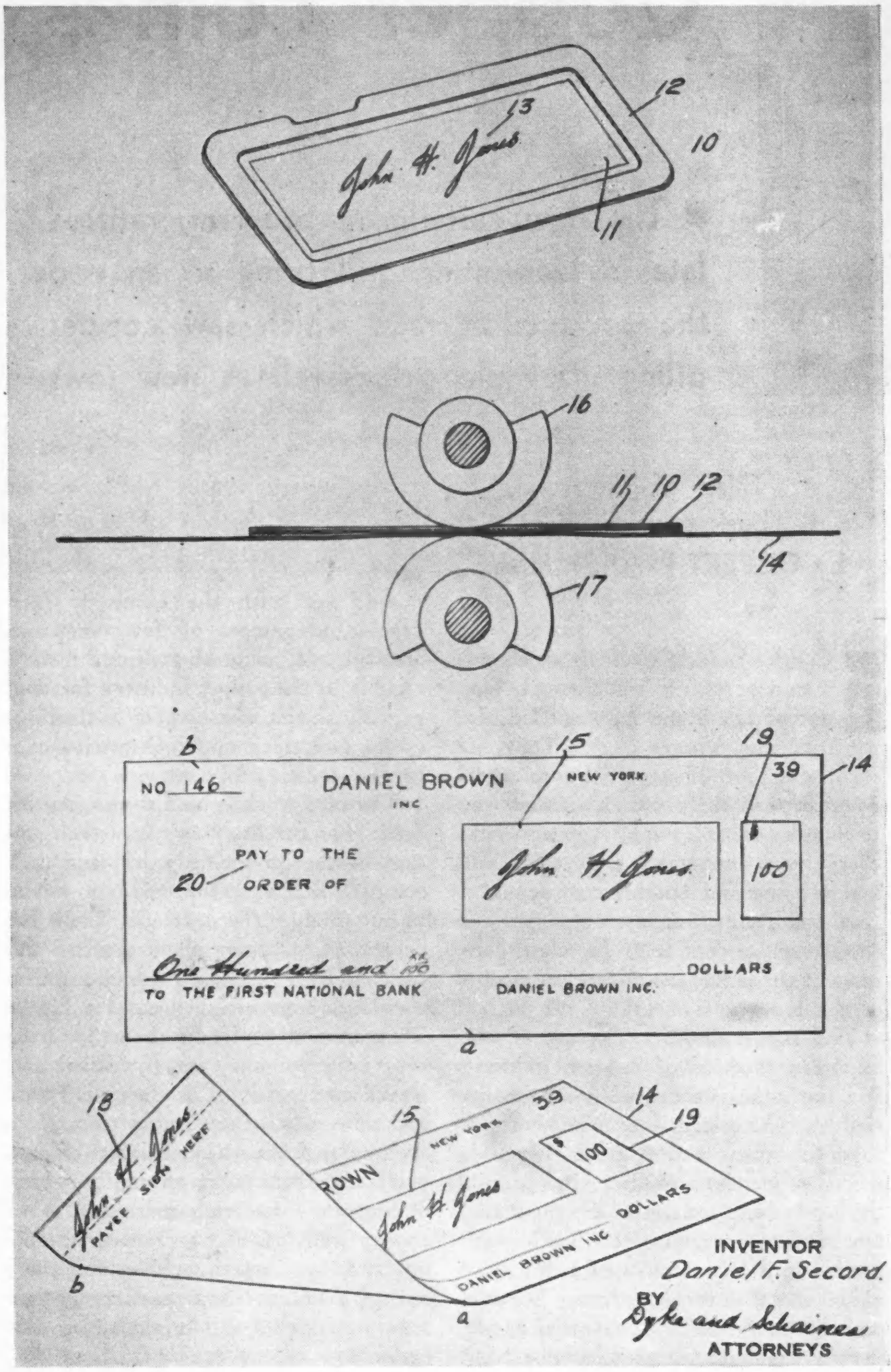
of the check may be provided with the printed matter to warn all persons that the endorsement of the payee must agree with the facsimile.

By means of this invention not only can a payroll be quickly and easily prepared, but the commission of such frauds as "padding" is effectively prevented. This fraud consists usually in the placing upon a payroll of names of individuals who are not employed and not entitled to receive a payment as an employee. In case the payroll is disbursed by means of ordinary checks written in the usual manner, the person committing the fraud receives the checks, endorses them with the name of the payee, and then cashes or negotiates them in the usual manner.

Such procedure is impossible when the payroll is disbursed by means of the present invention because each check bears the facsimile of the signature of an actual employee and will not be paid by the drawee unless endorsed by that person. If through fraud the payroll should be padded by means of false stencils so that fraudulent checks are issued, each of such checks would have to be endorsed by the person who made the corresponding stencil or else a forged endorsement made. In either case the drawer of the check would, upon return to him of his cancelled checks, have written evidence of fraud. Furthermore, the knowledge that written records of the fraud would exist in the form of false stencils, and cancelled checks bearing facsimile signatures of payees and corresponding endorsements, would act as a strong deterrent against such fraud, together with the fact that the same acts of fraud would have to be committed with each payroll in order to continue to carry on the fraud.

We are informed that New York bankers, lawyers and many business houses are thinking of adopting the Secord plan, and it may not be long before the facsimile check will be commonly used throughout the world, all in the interest of better business, safety and luxury.

That is the prediction of many leaders of industry.




**This detailed diagram of new method of payroll check writing demonstrates fully the principle of second invention as introduced in New York recently. Figure 1 is a perspective view of stencil bearing the signature of a given person. Figure 2 is a side elevation partly in section showing a stencil and check blank and means for printing upon the check blank a facsimile of the signature upon the stencil. Figure 3 is a plan view showing the face of the check after the printing of the facsimile. Figure 4 is a perspective view showing how the check may be folded for comparison of endorsement of payee with facsimile. Signature of each employee is obtained upon a stencil (10), comprising a stencil sheet (11) and a frame or holder (12). The writing forms a porous line (13), permitting passage of ink. Printed matter on usual form of check indicated by Figure 20, and space (19) indicated to receive name of payee. This space is preferably arranged to the right of the point *a*, Figure 3, so that when check is forwarded along the line *ab*, and endorsement (18), in the usual position on back of check, may be readily compared with payee's name upon face of check. The ends of line *ab* may be printed upon check. If desired, space (19) may be provided with printed matter warning all that endorsement of payee must agree with writing therein. In writing checks, each check blank (14) is spaced in contact with stencil (10) and ink is applied in such manner as to pass through stencil sheet, forming upon check blank within space (19) a facsimile (15) of lines or signature (13) previously traced or formed upon stencil. Duplication stencil lines (13) may be readily performed by means of co-operating ink roller (16) and supporting roller (17) by a suitable mechanism. Means are provided for feeding superposed stencil and check blanks in and out of operative relation to roller (16), (17).**

# Identification

**New form not only aids in establishing the employee's identity but serves as a further check on fraud through pay-roll "padding"**

Daniel F. Secord, Treasurer of Rex Cole, Inc., New York City, has introduced an effective and simple means of check identification and handling, which we are presenting for the information of CREDIT AND FINANCIAL MANAGEMENT readers.

Mr. Secord's invention enables the honest employee to negotiate his pay check even where he is unknown. The bank and client alike, says Mr. Secord, are afforded a greater protection than ever before. One of the unique features of this check is that the name of the payee is not handwritten nor typewritten, but is actually a facsimile of the payee's signature.

This reproduction of the signature works much after the fashion of the Travelers' Check, but goes a step further with a precaution which is revolutionary. In the case of the Travelers' Check, the signature written at the time of purchase by the payee must be reproduced on the face of the check in the presence of a paying teller. This ordinarily would establish his identity by comparison with the original signature made at the time of purchase.

Under the new plan the payee must reproduce his signature on the back of the check as endorsement, without a model to follow. This carries the "foolproof" idea to the ultimate, and greatly simplifies the problem of identification.

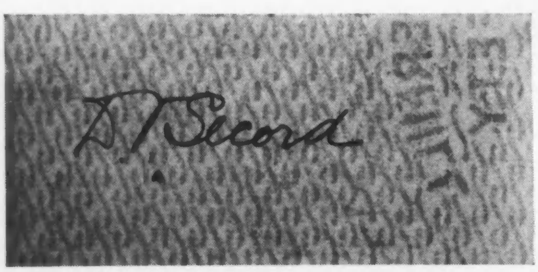
Mr. Secord points out that his method may, if desired, be employed for the protection of holders of non-negotiable instruments, such as stock certificates, and so forth.

In practising the invention for the writing of checks, to cover, for example the disbursements of a payroll, the procedure is as follows:

The signature of each employee is obtained upon a stencil, of such material that when the stencil sheet is written upon by a stylus of metal or other suitable material, the writing forms a porous line which permits passage of ink through the stencil sheet, whereas such passage does not take place at other parts of the sheet.

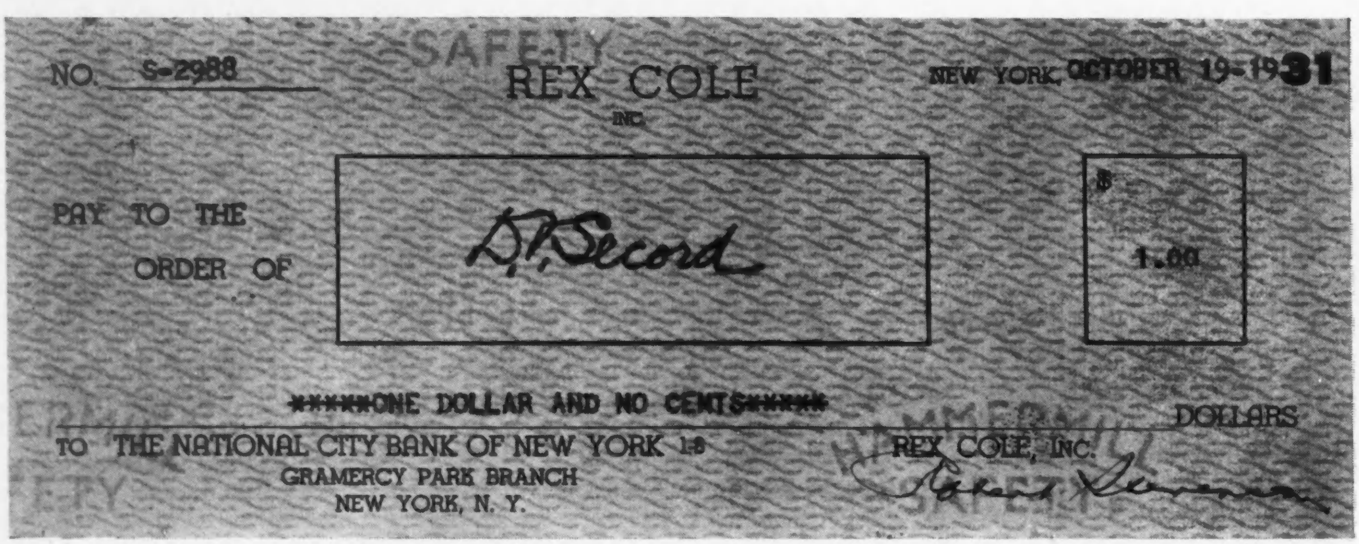
This signature is preferably obtained at the time the employee is hired and his name is placed upon the payroll, although obviously, a stencil may at any time be prepared as occasion warrants. In this manner, the drawer of checks obtains a set of stencils bearing the signature of each person upon the payroll, each stencil bearing a simple signature. The collection of stencil sheets thus obtained is preferably maintained in indexed relation as regards the names signed.

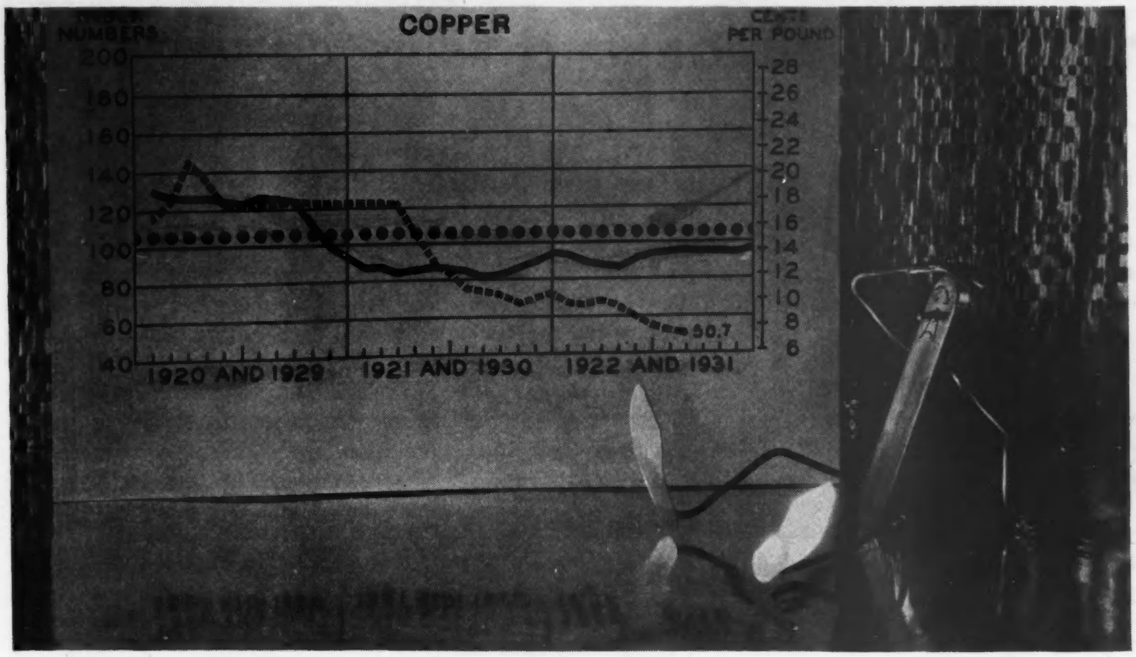
On check blank bearing printed matter of the usual character, a space is suitably indicated to receive the name of the payee. When endorsement is made by the payee, a facsimile and a fresh endorsement may be readily compared. If desired, a space upon the face




**The facsimile signature superimposed upon face of payroll check. (left)**

**Endorsement on back of check corresponding with stenciled reproduction, immediately establishes identity of payee. (below)**






**"From 21c to 7c . . . in the lingo of the race track, copper has come a cropper". Price of electrolytic copper in New York F.O.B. refinery, charted by National Industrial Conference Board, 1923 price=100 Dashed line = years 1929-30 and 1931. Solid line = years 1920-21-22.**

in the present parlous times has been a much easier accomplishment than in the days when copper was being produced by everyone and being sold with fine profit at twenty cents the pound. Since 50 per cent. of the world's copper is produced and consumed in these United States, two important year-end conferences have been held here in the late months of 1930 and 1931. The first resulted in an agreement whereby the copper companies were to cut production by one-third. The copper production of 1930 amounted to almost 1,500,000 short tons of which the United States contributed over 800,000.

But the 1930 agreement did not do all its exponents hoped it would do. Instead of bettering things, it showed little if any results of a tangible and financial nature. Monthly the copper stocks above ground grew bigger until it seemed that it would be less costly to put the copper back in the mines than pay storage on the vast amount of unused copper filling the storehouses of the world.

At present the world is using almost 85,000 tons a month, which totals over 1,000,000 tons a year. Late in the past November a second world conference met in New York and a fifty per cent. reduction was advocated. If it had passed those who were in on the agreement would have cut their production down to some 55,000 tons a month and this, added to over 25,000 a month from small, independent producers not touched by the agreement, would have brought production on an equality with present demand. With prices at lowest levels in history and demand at pre-war proportions, many came to the conference but few came to a unanimous agreement.

Off-hand judgment of this unwillingness to enter almost any kind of agreement is dangerous. There are strong, vital factors behind the decisions of the companies who wish to keep on producing at a higher average than some others deem essential to the welfare of the industry as a whole. The rich African properties, for example, are on the threshold of large production after several years of development and, therefore, the men behind these companies are anxious to get the return on their capital investment as soon as possible.

But the foreign producers are not oblivious that half or more than half of the production is consumed in this country and will be for many years to come. Accordingly, if the companies abroad do not show a reasonable willingness to conform to the wishes of American producers, the threat of an American tariff can be a potent weapon in forcing some degree of acquiescence, for such a tariff would reserve the American market for the American product to the detriment of producers abroad and the advantage of Uncle Sam's producing corporations.

Many schemes have been devised to help the patient—copper. They range from suggestions for a total and absolute shutdown for a year to the curbs of 25 and 50 per cent. of which we have already heard. Total shutdown is not without precedent. In 1921 post-war deflation and interrupted business caused a complete closing of plants and mines for nine months to the seeming advantage of the industry.

Curtailment of production is claimed, however, to be a painful procedure by copper men, because producers can operate more cheaply and efficiently at or near capacity than at a small fraction of capacity.

Strong argument is advanced by the opponents of the back-to-normalcy ideas generated by harassed producers. Brazil and its failure in stabilizing coffee, the flop of the Stevenson rubber plan, the poor results gained by the Federal Farm Board in its wheat and cotton stabilization efforts are all cited as examples of the impossibility of artificially promoting prosperity.

But stronger than any of these is the counter threat of an American tariff and it seemingly is winning over the opposition. In December the Belgian interests, which control the Katanga group, intimated that they would fall in line with the plans of the American producers made at the November, 1931, conference.

The chief obstacle to the conclusion of an agreement among world copper producers for further sharp curtailment of output appeared to have been removed with the report from London that Belgian interests operating the Katanga mines in Africa had accepted proposals made to them in New York.

Although the willingness of Katanga to accept the proposals apparently opened the way for adoption of the curtailment plan, much remained to be

(*Continued on page* 44)

# Copper comes a cropper

**The new curtailment program, ratified late in December, will bring to an end the production race which saw copper piling up while prices fell to new lows**

Third of the series of basic commodity studies
by GILBERT PARKER HAYES

Copper is linked closely with human progress. It brought early man out of the Stone Age and led him into the Bronze Age. Today it forms one of the bases of the industrial foundation of the world. Everytime you telephone or telegraph, copper wires carry your message. Everytime you make change and handle a cent or nickel coin you are making use of copper for the American cent is 95 per cent. copper and the nickel contains 75 per cent. of this red-brown metal.

The copper industry is one of the important factors of modern industry and until the last decade it was essentially an American enterprise, both as to development and control. Copper's special properties make it a vital part in the key industries upon which the maintenance and progress of civilization depends. It is less often used as an individual metal than as a partner in some other industry, being of essential use to electrical manufacturers, telephone, telegraph, power and light lines, wire products, automobiles, building, casting, and a dozen others.

No industry has better statistics or is more reliably informed. No industry of world-wide scope and importance has so few companies interested in its procedure. Eliminate those whose output is less than 1,000,000 pounds a month and the total number of American operators is approximately twenty. About thirty more are outside our borders. The percentage of total production ranges from a maximum of around 22 per cent. controlled by one group to less than one-half of one per cent. (Oh! where did you hear that formula before?) by the individual members of the smallest units.

And yet with the seemingly inescapable advantages of few companies and fulsome, accurate statistics there is trouble in the copper industry for copper has taken a nose-dive, or as the lingo of the race track might phrase it—copper has come a cropper.

The race track is an apt allusion, indeed! For the past few years each section of the producing world and each company in that section had been racing to out-produce the next one. Came the depression. Copper fell in demand and use. And the producers found out that they had been racing around a circle. They are worse off now than they have ever been for they have wearied and weakened themselves in their mad race and now, when they would stop, their accumulated impetus and habits of past years keep them going on and on—producing and producing more and more copper while visible stocks pile up and up and one meeting after another, one plan of curtailment after another falls into discard and brings added discord.

Price, often, brings out comparative situations. Let us see what the price situation is. From the late months of 1927 through the first three months of 1929, copper prices rose in an ever steeper trend from 13 cents to 21 cents. In March, 1929, prices fell and by the end of April they were down to 18 cents, at which level they were arbitrarily fixed for almost a year. And then the deluge! Within a six months period copper was worth 10 cents a pound and during this past year the downward trend, less drastic but none the less downward, has swept the price level to approximately 7 cents early in December. For such a fall there must be a reason. There is.

Increased prices in 1928 and 1929 brought more producers into the field. A commodity that had been primarily an American affair for many years suddenly found itself to be the cause of efforts, in a mining way, by South Americans, Canadians, Chinamen, Japanese, and African negroes—these latter under the direction of British capital and Belgian auspices. And very suddenly there was, and still is, more copper on hand than the world can use in many months and more on the way each day.

Since 1925 producers in North and South America have been watching the African production rise. In 1925 African copper production amounted to some 90,000 tons a month. In 1930 it had almost doubled to reach 160,000 tons every thirty days. Leading the African mines is the Katanga group. Cheap labor and cheap mining costs make African copper a dominant factor for with Bantu boys excavating copper in the open-cut mines at a wage rate of $5.00 a month, Katanga can send copper to the United States at 7 cents a pound. That, any American producer will tell you, is a figure ruinous to most other producers.

Katanga, of course, is fortunate in having copper near the surface. It costs little time, effort or money to find the ore—an airplane can locate it—whereas other producers must mine it from the depths at great expense after paying engineers vast sums to locate it and reward their laborers at wages much higher than a mere $5.00 a month. Yet, if African copper were only a matter of a few years it would be wise counsel for others to hang on, but the growing importance of African copper is emphasized when we learn that 28 per cent. of the world's metallic reserves are in the new Rhodesian fields. In about three years, it is estimated that the Rhodesia field will be producing about 500,000,000 pounds of copper a year, which is just about one-eighth of the world's production.

It is easy to understand that getting the men of the copper industry together

| State | City | Collections | Sales | State | City | Collections | Sales |
|---|---|---|---|---|---|---|---|
| Tex. | Dallas | Fair | Fair | | Tacoma | Fair | Fair |
| | El Paso | Slow | Slow | W. Va. | Bluefield | Fair | Fair |
| | Fort Worth | Fair | Fair | | Charleston | Fair | Fair |
| | Houston | Fair | Fair | | Clarksburg | Fair | Fair |
| Utah | Salt Lake City | Slow | Slow | | Huntington | Fair | Slow |
| Va. | Norfolk | Fair | Fair | | Wheeling | Slow | Slow |
| | Richmond | Fair | Fair | Wis. | Fond du Lac | Slow | Slow |
| Wash. | Bellingham | Slow | Slow | | Green Bay | Slow | Slow |
| | Seattle | Fair | Slow | | Milwaukee | Slow | Fair |
| | Spokane | Fair | Fair | | Oshkosh | Slow | Slow |

## Comments on collections and sales conditions

ARKANSAS: Little Rock informs us that collections are fair, but would be better were it not for the fact that a bumper rice crop is being held for higher prices. The same applies to sales, which are fair, even though the cotton crops have been the largest Arkansas has ever been known to produce.

CALIFORNIA: San Francisco notes a slight improvement in collections since last month. Also, a little improvement in sales, due to holiday trade, although prices continue lower.

COLORADO: In Denver money has tightened considerably which has caused sales and collections to become slow.

FLORIDA: Due to the unseasonable warm and dry summer weather Jacksonville is still having, conditions as to retail and wholesale trade have become slightly worse during the month of November than in the preceding months. Tampa reports that on account of the extreme drought, the vegetables and strawberry crops have not come on the way they should and are extremely backward. Prices on citrus fruits have been extremely low. This has caused a great scarcity of funds in this territory. The bright spot has been the vegetable crop in the Everglades section which has brought fancy prices and owing to the fact that the sugar mills will begin grinding within a few weeks, this has brought to that immediate vicinity a housing shortage and prosperity that looks like boom times compared with other parts of the state.

## Changes since last month's survey

| State | City | Collections | Sales |
|---|---|---|---|
| California | Los Angeles | | Fair to Slow |
| | Oakland | Slow to Fair | Slow to Fair |
| | San Francisco | Slow to Fair | |
| Colorado | Denver | Fair to Slow | Fair to Slow |
| Connecticut | Waterbury | | Fair to Slow |
| Dist. of Col. | Washington | Fair to Slow | |
| Florida | Tampa | | Slow to Fair |
| Illinois | Rockford | Slow to Fair | |
| Indiana | Indianapolis | Slow to Fair | |
| Iowa | Cedar Rapids | Fair to Slow | Fair to Slow |
| | Ottuma | Fair to Slow | |
| Louisiana | New Orleans | | Fair to Slow |
| Massachusetts | Boston | Fair to Slow | |
| | Springfield | | Fair to Good |
| | Worcester | | Fair to Slow |
| Michigan | Detroit | | Fair to Slow |
| Minnesota | Minneapolis | Fair to Slow | |
| Missouri | St. Louis | Slow to Fair | |
| Montana | Billings | Fair to Slow | Fair to Slow |
| Nebraska | Omaha | Fair to Slow | |
| Ohio | Cincinnati | Fair to Slow | |
| | Cleveland | Fair to Slow | |
| | Dayton | Fair to Slow | |
| Pennsylvania | Johnstown | Slow to Fair | |
| | Wilkes Barre | | Fair to Slow |
| Rhode Island | Providence | Slow to Fair | |
| Texas | El Paso | Fair to Slow | |
| Utah | Salt Lake City | | Fair to Slow |
| Washington | Bellingham | | Fair to Slow |
| West Virginia | Bluefield | Slow to Fair | |
| | Wheeling | | Fair to Slow |
| Wisconsin | Milwaukee | Fair to Slow | |

ILLINOIS: Rockford becomes optimistic, due to the fact that a goodly number of firms are picking up in sales and there is a slight improvement in collections.

IOWA: The "slow" sales and collection conditions in Davenport are due to bank failures and lack of confidence.

KANSAS: Collections have improved during the past sixty days in Wichita. Sales are fair—wheat, oil and live stock prices largely govern this city.

MASSACHUSETTS: Boston reports difficulty in collections for the past month as compared with the same period last year. Sales, however, in amount of money is slightly off, but volume about holding its own. Springfield reports collections fair to good and sales seasonally brisk in retail and good in the wholesale trade. There is a loosening up of money. Worcester finds collections better than fair, but not so good as six months ago. Sales are slow due to the fact that this city is a manufacturing center for metal products, lumber and furniture and not affected by seasonal activity.

MICHIGAN: Detroit advises that collections are fair considering conditions under which debtors have to pay. Sales, however, are slow with slight indications of increased activity in a few lines.

MINNESOTA: The collections in Duluth show an increase over October, but sales appear to be slowing down. Minneapolis finds that aside from the seasonal holiday business, there does not appear to be any evidence of improvement in either sales or collections. St. Paul states "more and more the principle of debt moratorium is being followed as a policy of helpfulness to worthwhile commercial enterprises in need of help. Liquidation of embarrassed estates is normal." With regard to sales this city reports, "Manufacturers note an increase in number and amount of inquiries and are looking forward to increased bookings".

NEW JERSEY: Many concerns in Newark reported an improvement in business early in November, but now state that later in November business (*Continued on page* 37)

# Nation-wide collection and sales conditions

## What they are at present
## The outlook for the near future

CREDIT AND FINANCIAL MANAGEMENT offers its regular monthly survey of collections and sales conditions. It is based upon reports from large cities throughout the country that are trade centers for their surrounding areas. The reports are the results of the daily experience of the leading wholesaling and manufacturing concerns operating from these trading centers. The two questions "Are people buying?" and "Are they paying?" are perhaps the most direct and immediate reflection of daily business conditions in the country.

These reports have been tabulated so that you may see at a glance how conditions are reported in various cities in each state, also what cities report a condition of "Good, Fair or Slow." At the end of this summary you will find valuable explanatory comments that have been sent in to CREDIT AND FINANCIAL MANAGEMENT. These additional comments may be pertinent to your interpretation of collection conditions and sales conditions in the cities listed.

| State | City | Collections | Sales |
|---|---|---|---|
| Ariz. | Phoenix | Slow | Slow |
| Ark. | Little Rock | Fair | Fair |
| Cal. | Los Angeles | Fair | Slow |
| | Oakland | Fair | Fair |
| | San Francisco | Fair | Fair |
| Colo. | Denver | Slow | Slow |
| | Pueblo | Fair | Fair |
| Conn. | Bridgeport | Slow | Slow |
| | New Haven | Fair | Fair |
| | Waterbury | Fair | Slow |
| D. C. | Washington | Slow | Fair |
| Fla. | Jacksonville | Slow | Slow |
| | Tampa | Slow | Fair |
| Ga. | Atlanta | Fair | Fair |
| | Macon | Slow | Fair |
| Idaho | Boise | Fair | Fair |
| Ill. | Peoria | Fair | Slow |
| | Rockford | Fair | Fair |
| Ind. | Evansville | Slow | Slow |
| | Ft. Wayne | Fair | Fair |
| | Indianapolis | Fair | Fair |
| | South Bend | Fair | Fair |
| Iowa | Burlington | Fair | Fair |
| | Cedar Rapids | Slow | Slow |
| | Davenport | Slow | Slow |
| | Des Moines | Slow | Slow |
| | Ottumwa | Slow | Fair |
| | Sioux City | Fair | Fair |
| | Waterloo | Slow | Fair |
| Kan. | Wichita | Fair | Fair |
| Ky. | Lexington | Fair | Fair |
| | Louisville | Fair | Fair |
| La. | New Orleans | Fair | Slow |
| Md. | Baltimore | Fair | Fair |
| Mass. | Boston | Slow | Fair |
| | Springfield | Fair | Good |
| | Worcester | Fair | Slow |
| Mich. | Detroit | Fair | Slow |
| | Grand Rapids | Fair | Fair |
| | Kalamazoo | Fair | Fair |

| State | City | Collections | Sales |
|---|---|---|---|
| | Lansing | Slow | Slow |
| | Saginaw | Slow | Slow |
| Minn. | Duluth | Fair | Fair |
| | Minneapolis | Slow | Slow |
| | St. Paul | Fair | Fair |
| Mo. | Kansas City | Slow | Slow |
| | St. Louis | Fair | Slow |
| Mont. | Billings | Slow | Slow |
| | Great Falls | Slow | Fair |
| | Helena | Fair | Fair |
| Neb. | Omaha | Slow | Slow |
| N. J. | Newark | Fair | Fair |
| N. Y. | Albany | Fair | Fair |
| | Buffalo | Fair | Fair |
| | Elmira | Fair | Fair |
| | Jamestown | Good | Fair |
| | New York | Fair | Fair |
| | Rochester | Fair | Fair |
| | Syracuse | Fair | Fair |
| | Utica | Fair | Slow |
| N. C. | Charlotte | Fair | Fair |
| No. Dak. | Fargo | Fair | Fair |
| Ohio | Cincinnati | Slow | Fair |
| | Cleveland | Slow | |
| | Columbus | Slow | Slow |
| | Dayton | Slow | Slow |
| | Toledo | Slow | Slow |
| | Youngstown | Slow | Slow |
| Okla. | Tulsa | Slow | Fair |
| Oregon | Portland | Fair | Fair |
| Pa. | Allentown | Slow | Slow |
| | Altoona | Slow | Slow |
| | Johnstown | Fair | Fair |
| | New Castle | Slow | Slow |
| | Philadelphia | Fair | Slow |
| | Pittsburgh | Fair | Fair |
| | Scranton | Slow | Slow |
| | Wilkes-Barre | Slow | Slow |
| R. I. | Providence | Fair | Fair |
| So. Dak. | Sioux Falls | Slow | Fair |
| Tenn. | Chattanooga | Fair | Fair |
| | Knoxville | Fair | Fair |
| | Memphis | Fair | Fair |

# "This month's collection letter"

**Gentlemen:**
**Eleven months of the year I have complete charge of my department without interference.**
**During these eleven months it is my privilege to grant time on accounts beyond the 30 days, which are our established terms. It is a pleasure to grant these accommodations, but as the old saying goes, "There must be a day of reckoning," and that day of reckoning comes to me every December when the boss calls me into his sanctum and asks for an explanation of the past due items on our books and requests that all accounts be brought up to date before the close of business for the year.**
**My answer to his query is that credit has been granted to only responsible people like yourselves, who will remit promptly upon receipt of a request for settlement.**
**The boss knows I am writing you, so make good with him and also prove to him that my faith in you was well founded.**
**Awaiting your check, I am**

**Yours very truly,**

**C. R. LINDH,**
**Mgr. Credit Dept., R. R. Howell & Co.**

**CRL:ROW**

**We present our regular "this month's collection letter". It is unique and effective and an example of good collection letter thinking.**

**What the country needs is more good collection letters. Their importance in helping pull business out of a depression and then keeping it out is greatly underestimated. There is no short cut to profits as certain as collection letters that do their job.**

**Send us your best and favorite collection letter for our "collection of collection letters" which we are gathering for readers of CREDIT and FINANCIAL MANAGEMENT.**

Mr. C. R. Lindh, Manager of the Credit Department of R. R. Howell & Company, Minneapolis, Minn., has submitted to us a letter which is particularly effective for collecting accounts at the close of the year and the beginning of the New Year. In his communication accompanying this letter Mr. Lindh said, "About 102 letters were mailed on December 14th to delinquent debtors, and to date, December 18th, 16 have returned the letter with a check in full settlement of their account, five have made partial payments and promised the balance before December 31, and six have written promising payment shortly after the first of the year. One check for $675. came from an Iowa debtor by Special Delivery with an apology for delay, and numerous others have expressed their appreciation for our leniency and extended us the season's greetings."

In the first paragraph of the collection letter it is stated "Eleven months of the year I have complete charge of my department without interference." In this letter Mr. Lindh places the emphasis upon closing out accounts before the end of the year. This letter, however will be just as adaptable for use on slow accounts which have not paid at the end of the year. You may inject the slant that the customer should start the New Year right.

Mr. Lindh's letter accompanying the above collection letter also states that "the results from the enclosed letter have been so unusual we cannot resist passing it along to you. This letter is longer than it is generally conceded that a good collection letter should be, but it sure has brought results."

A complete series of individual numbers of the collection letters which have appeared in CREDIT AND FINANCIAL MANAGEMENT are available upon application to Miss Susan E. Hutter, Manager, Collection Letter Department, CREDIT AND FINANCIAL MANAGEMENT, One Park Avenue, New York.

# Our readers think

**I wholly disapprove of what you say and will defend to the death your right to say it.—Voltaire to Helvetius**

"Our Readers Think" is an open platform for our readers. Criticisms of all kinds will be published on this page. We believe in the strength and power of controversy. We believe in both brickbats and bouquets. There is no brickbat this month, perhaps we will have better luck next month.

### They're making our new year happy

Like the business situation, magazine publishing has its ups and downs. One day you are praised, the next day you are peppered with criticism. From the numerous letters which come to our desk, many of them concern themselves with our readers' reactions to the original and distinctive means of presentation which we employ.

Fortunately, we can say that the great majority of our readers find our style acceptable but there are others, of course, who do not. Some of you write to the magazine. Here are three of several received this month, chosen because they are so close and so definite in their likes.

The first is from Mr. Richard Harding of the American Mutual Alliance Company, Chicago, Illinois; the second by Mr. E. N. Welsh of the Indiana Limestone Company, Bedford, Indiana, and the third by Mr. E. B. Odenkirk of the Medusa Portland Cement Company, Cleveland, Ohio.

Dear Mr. McCall:

I notice occasional criticisms from your readers as to your *moderne* form of makeup, and needless to say, the opinions pro and con are interesting to anyone concerned with modern typography and design.

At one-time makeup editor on a national weekly, and later a designing typographer, let me say that most advertising men miss the point in magazine editorial page layout. They don't realize that to-day's editorial pages must vie in attractiveness with advertising designed by highly paid experts; in other words, the magazine from cover to cover must have a "pickup value".

Let me say that CREDIT is well designed and well made-up. Particularly do I like the editorial illustrations, which surely give added life to many (I am afraid) prosaic subjects which must necessarily appear in your pages.

Dear Sir:

I have read CREDIT AND FINANCIAL MANAGEMENT with considerable pleasure for a number of years. Of the different commercial magazines that I read, I can say without reservation, that the CREDIT magazine is, to me, outstanding. It is crammed full of constructive ideas and I adopt this means of assuring you of my sincere appreciation for the many helpful things it has been my pleasure to glean from its pages.

I was especially delighted with your description and analysis of the National Credit Corporation. Mr. T. Homer Green's article "Charge Interest on Past Due Accounts" in the November issue was also of especial interest because we have had some heated discussions among members of our Trade Group on this very subject. I wish to compliment Mr. Green on the splendid manner in which he has treated a subject that has long been a bone of contention, in this particular circle.

Dear Mr. McCall:

I recently received "CREDIT AND FINANCIAL MANAGEMENT," and I want to compliment you on its excellent appearance and the wonderful work you are doing.

This magazine has shown a steady improvement since your editorship, and you may be sure I look forward with much anticipation to receiving future issues.

### ? Register the business man ?

On the opposite page you will find an article by Mr. N. R. Catharin of Boston, Mass. He submits his article asking for the registration of business men, as a supplement to a letter he has written us concerning this subject. It is an interesting thought, interestingly told.

Dear Sir:

The alarming increase in business difficulties, many of them resulting in disastrous failures with severe loss to the creditors, as well as the community, is a subject that requires the closest observation and analysis.

It needs correction.

There are many ways to accomplish the desired improvement, and my own feeling is that one of them is to force the future business man, or woman, to pass a reasonably simple examination and be licensed, as many fields of endeavor are today.

I realize that practically every town and city today charges a license fee and that the state and nation have business taxes, but these are simply figured on the capital or earnings and are enforced after the business is established and going. There are no requirements, so far as I know, to bar anybody from going into business, excepting the individual's own dictates.

I am attaching an article for your consideration, which you may feel is too radical to be published, but, on the other hand, feeling that it may stir up some discussion and result in some helping conclusions, I am passing it along to you for what it is worth, and if it contains even a germ of an idea that will ultimately expand into worthwhile accomplishment, I shall be very happy.

# ? Should business men be registered ?

**By N. R. CATHARIN**

The ease with which anyone can engage in business, and the apparent indifference to the unfortunate results for the community as a whole, is nothing short of appalling. This is a bold, broad statement, but is the conclusion, based upon eighteen years of intensive credit experience.

Business needs to awaken to protect itself, as well as the community at large. So far as the writer knows, there are no pre-requisites for embarking upon a business enterprise. The dictates of the individual are practically the only guide.

It is true that in many progressive concerns, both wholesalers and manufacturers, there are established Credit Departments for the purpose of interviewing the prospective customer personally, or obtaining helpful information through the regular constituted channels with respect to the individual's record and prospects, supplementing this with correspondence many times direct with the applicant, and yet, it is a comparatively simple matter to obtain merchandise without any real basis existing for the extension of credit.

It is sad that the accusation—"Credit is cheap"—is so universally true.

If it were not for the unfortunate termination of so many enterprises, and the damaging effects upon the community, the situation could be conscientiously dismissed, but the injuries are so extensive as to create an alarming situation and one that needs closer analysis and radical correction.

The person who anticipates devoting himself to a medical career must spend several years in study, to properly prepare himself, and then, before he can actually engage in the practice, must pass a proper examination and be licensed.

This is true of the lawyer, many classes of engineers, and public chauffers, and yet it is a question, even if unregulated, these groups in their entirety could cause greater damage than the untrained who so carelessly are allowed to upset economic structures because of their inability to prosecute successfully the venture undertaken.

Is there any valid reason why one who desires to go into business for himself should not be required to measure up to certain requirements? As the writer views it, each state could very profitably set up a bureau, under the proper state department to conduct such simple tests as would reveal the applicant's suitability to proceed along the lines laid out.

The business neophyte should be required to state briefly his previous experience and where gained, should be able to answer satisfactorily the questions as to the amount of necessary capital to establish the business on a sound financial basis; likewise should be able to reveal understandingly his idea of the necessary expense ratio—particularly the rental—the volume of business required to warrant the investment, and the prospects in the community where he is located.

To be sure, these are fundamentals, but if the proper grasp of these essentials is evident, in all probability the risk of failure has been considerably reduced.

It may be claimed that this immediately prevents the development of individualism, but no such criticism is heard in the other fields where requirements of this nature, as explained above, are set up.

The individual who has native ability, but no capital or training, still has plenty of opportunity, for he can acquire the additional requirements, and when properly versed, the field is open to him.

The more successful operation of the plan herein proposed would be assured if all business men were compelled to have a certain amount of educational training which, in turn, in the majority of instances, develops the moral phase of character as well.

There are plenty of private institutions available to all, both day and night, where this training can be secured, and even many of the states today conduct extension courses, very low in cost and rich in accomplishment.

So long as the world is indifferent to this question, just so long will unnecessary failures increase, and to just the extent the world wakes to the need for the protection of the efficient, sincere and honest business men, will the problem of distress merchandise and financial loss be reduced to the minimum.

Everyone, by law, should be compelled to keep a simple set of books. As it is, today many merchants keep very incomplete records as well as inaccurate records, with the result that it is impossible to determine the nature of the yearly transactions intelligently, and this is particularly embarrassing and trying where a failure has occurred.

All states now operate a Bank Examining Division. Would it not be possible for the state to supervise the financial records of all businesses doing less than $50,000. at a minimum cost and compelling all businesses doing in excess of that amount yearly to have their books audited by a recognized auditor, either a C. P. A. or private, so long as the auditor is in good standing?

## Business changes

(*Continued from page* 11)

While I do not underestimate the power of foreign competition, this is a bugaboo that has been predicted ever since the war. Dire predictions were made that immediately after the war we would suffer the calamity of being flooded with foreign goods. While there are some impediments to a continuation of our foreign trade, notably the recent tariff and the collapse of foreign currency; nevertheless, our foreign trade is not going to vanish overnight. Furthermore, in the long run, it will increase in keeping with the increase in production and consumption. Our markets may shift—indeed in all probability they will.

Finally, the changing character of business is going to be affected by some sound program of standardization. Mergers and consolidations will once again be revived and where they are economically advisable, they are certain to take place.

I repeat that there is nothing certain in business in this day and age save death and taxation. Even the calendar under which we operate and which has served us for all these centuries has suddenly been discovered as obsolete. I do not know when the thirteen month calendar will be adopted, if ever; but I am not willing to say that its adoption will not come about. If the present calendar is antiquated, it will have to go, for nothing is immune.

While these changes occur, it doesn't

(*Continued on page* 33)

## Business changes

(*Continued from page* 31)

mean that those involved are helpless or should sit idly by and see their business shifted into the discard. As I said in the beginning, it requires ingenuity to meet each and every situation and it's the exertion of these qualities that will bring its reward.

Years ago, when I was a lad in Southern Illinois an itinerant peddler came strolling down the railroad track. One of the village philosophers, who had the habit of settling all the world's problems on the front porch of the grocery store, directed my attention towards the peddling merchant, who was leisurely strolling into town. "Henry," he said, "you see that man with the red pack on his back? His day is past." Several evenings ago, while I was sitting in my home, a salesman came in and displayed his line of brushes. I recalled this incident. A live, alert, aggressive management had proven the fallacy of thinking that the itinerant peddler's day was past. They had taken the old idea, put new life into it, and as a reward for their ingenuity, had built up a tremendously strong and profitable business.

What your situation will be depends upon you—your vision, energy and ability to meet these problems. Science, changes in habits and fashions, new methods of business economics, social evolution, and changes in the human factor have all brought about a new order of things.

Some time ago I visited a farm that I own in Arkansas. While there, my tenant and I sat rather lazily in the shade of a tree with our backs against its sturdy trunk. This particular tenant happened to be very indolent, or to be frank, quite lazy, and although on many occasions I offered to furnish all the material he needed for a water well which could be driven with little effort within just a few feet of his home, he preferred to allow his bride of several months to journey a mile to the spring and trudge back with the water. At this particular time she was coming back with a bundle of clothes and as she came near to the tree, it was evident that she was about to drop the basket. She looked hopefully toward her husband and in an appealing, pleading voice she said, "Hamp, caint you help me tote this here, I'm 'bout to drop it."

Rather lazily he looked up and in that drawling voice of his replied, "Why Mirandy I'm sitting mighty comfortable now, can't you make it?"

Many business men in industries who think they are sitting very comfortable now will awaken some morning to find their trade vanished and their business obsolete unless they keep their eyes open and their energies alert and take time to think. The thinker was never at so high a premium in business as today for it is the thinking which issues in action that is going to cash in heavily during the next quarter of a century.

## Sales resistance needed

"What this country needs is more sales resistance," in the opinion of Carl D. Friebolin, Federal Referee in Bankruptcy and President of the National Association of Referees in Bankruptcy.

Inability to say "no" to super-salesmen contributes to many cases of bankruptcy, he told Beta Alpha Psi, honorary accountants' fraternity, recently.

He pointed out that in 1900 there were 15,000 bankruptcy cases in the federal courts with liabilities of $171,000,000 while in 1930 60,000 cases with liabilities of $950,000,000."

# Insurance digest

**Inaugurated because of the credit fraternity's close contact with the insurance field and need of information about it.**

### Insurance in trust is non-taxable

In all but a few jurisdictions, it is an established rule that proceeds of insurance payable to the estate are taxable, while proceeds of insurance payable to a named beneficiary are not taxable. Within recent years, the immunity from taxation of insurance payable to a named beneficiary, has been extended to cases where, instead of being directly payable to the named beneficiary, the proceeds are payable to the beneficiary through a trustee under the terms of an insurance trust.

In some states the statutes now specifically provide for this exemption of insurance in trust; in others the freedom from taxation has been established by court decisions and administrative rulings. In a few instances, while such proceeds appear to be taxable according to administrative rulings which have not been openly rejected, they are not taxed in actual practice, says the *Estate and Tax News*.

While the practical effect, so far as the taxpayer is concerned, is the same whether the law specifically provides for the exemption of insurance proceeds placed under trust, or whether the exemption is accorded merely by tacit understanding, there is no reason why any state should not commit itself definitely to a policy of exemption which has been so universally approved. Insurance proceeds are placed in trust to protect the funds against the inexperience of dependents. It would indeed be a strange anomaly to encourage the purchase of insurance for the benefit of a named beneficiary by granting it immunity from taxation on the one hand, and on the other to penalize an estate if the insurance proceeds are protected for the beneficiary by means of an insurance trust.

Ohio has just passed a law, effective July 18, 1931, which provides in clear and unequivocal terms that proceeds of policies of life insurance payable on the death of the insured otherwise than to the estate of the insured, are not taxable, "whether paid directly by the insurer to the beneficiaries designated in such policies or to a trustee designated therein * * * *." This provision may well serve as a model for other states which have not yet enacted a similar statute.

### Retiring from Canada

Two insurance companies which are discontinuing the writing of business in Canada, the New York Indemnity Company and the Re-Insurance Company "Rossia" of Copenhagen, have made application to the Minister of Finance for release of all securities on deposit with the Receiver-General.

### "Other insurance" voids policy

Two policies were issued by a fire insurance company to cover property for $1,200 in all. The first in date had attached a rider, a loss payable clause, at the end of which were the words "Other insurance permitted." The second had no such clause. The indebtedness of the party named in this clause was paid, and the insured executed a mortgage on the property to a bank. A mortgage clause was attached to each of the policies as a rider, containing the indorsement: "This mortgage clause is issued in lieu of the one previously attached, the former mortgage having been paid." No words showing permission by the insurance company for other insurance appeared in the rider.

The policies both contained the standard provisions required by the statute as to other insurance and written waiver of policy provisions.

After the mortgage clause had been attached to each of the policies at the insured's request, he sent them to the mortgaging bank, which declined to accept them and returned them to the insured. He informed the insurance company's local agent of this, and that, at the request of the bank, he had procured another fire policy on the property. The local agent said to the insured that that was all right.

This third policy, procured by insured from another company, for $900, was in force when the property was damaged, and he had collected $280 on it.

In an action on the first two policies the North Carolina Supreme Court held, Johnston vs. Aetna (Fire), 160 S. E. 454, that the loss payable clause permitting insurance attached to the policy first issued was superseded by the mortgage clause attached to that policy, the *Eastern Underwriter* reports. Permission for other insurance on the property was thereby revoked prior to the issue of the third policy.

As there was no agreement in writing added to or indorsed on either of the policies sued on for other insurance on the property at the time the additional policy was procured by the plaintiff, it was held that the company was not liable under these policies. The statement of the company's local agent to the insured did not waive the provision forbidding other insurance.

### Loss payable clause decision

The Supreme Court of the United States recently held that the provision in a fire policy prohibiting chattel mortgages without consent endorsed on the policy is intended to reduce the moral hazard, and is a valid stipulation the violation of which constitutes a complete defense to an action on the policy.

A loss payable clause providing that any loss under the policy proved due to the assured shall be payable to the assured and a named bank is, it is held, "not informative to the insurer of the existence of a chattel mortgage, but performs the office of protecting a creditor of the insured who has no interest in the insured property by mortgage or otherwise against the eventuality of fire loss.

"The attachment of a loss payable clause is entirely consistent with the condition against change of interest or incumbrance of the insured property and does not constitute a waiver of the condition against sale or mortgaging, or a consent thereto."

## Statistics' aid in credit analysis

(*Continued from page* 17)

| | | | | | | |
|---|---|---|---|---|---|---|
| 1928 | | | | | | |
| Jan. | 613 | 1,593 | 2,341 | 848 | 4,525 | 988 |
| Feb. | 781 | 1,327 | 2,105 | 923 | 4,728 | 1,022 |
| Mar. | 857 | 1,286 | 2,078 | 976 | 4,429 | 957 |
| Apr. | 926 | 1,451 | 1,936 | 912 | 4,307 | 963 |
| May | 845 | 1,620 | 2,237 | 859 | 4,221 | 1,125 |
| June | 760 | 1,304 | 1,994 | 763 | 4,653 | 1,207 |
| July | 818 | 1,249 | 2,153 | 886 | 4,829 | 1,603 |
| Aug. | 827 | 1,173 | 2,180 | 915 | 4,909 | 1,356 |
| Sept. | 742 | 1,428 | 2,342 | 948 | 5,607 | 1,149 |
| Oct. | 954 | 1,587 | 2,221 | 900 | 5,422 | 1,308 |
| Nov. | 747 | 1,490 | 2,648 | 1,177 | 4,979 | 1,257 |
| Dec. | 610 | 1,652 | 2,765 | 1,053 | 5,711 | 1,105 |
| Average | 790 | 1,430 | 2,250 | 930 | 4,860 | 1,170 |
| Std. Dev. | 102 | 155 | 236 | 101 | 473 | 183 |
| 1929 | | | | | | |
| Jan. | 738 | 1,543 | 2,431 | 857 | 4,525 | 1,033 |
| Feb. | 941 | 1,872 | 2,375 | 926 | 4,623 | 1,185 |
| Mar. | 1,133 | 2,115 | 2,488 | 991 | 4,719 | 1,276 |
| Apr. | 1,054 | 2,256 | 2,509 | 1,038 | 4,412 | 1,338 |
| May | 937 | 2,487 | 2,654 | 1,122 | 4,308 | 1,226 |
| June | 892 | 2,672 | 2,792 | 1,387 | 4,727 | 1,381 |
| July | 920 | 3,045 | 2,631 | 1,491 | 4,838 | 1,472 |
| Aug. | 856 | 3,227 | 2,704 | 1,563 | 5,086 | 1,326 |
| Sept. | 937 | 2,843 | 2,556 | 1,401 | 5,121 | 1,459 |
| Oct. | 871 | 2,507 | 2,548 | 1,223 | 4,863 | 1,562 |
| Nov. | 785 | 1,237 | 2,917 | 1,559 | 5,929 | 1,628 |
| Dec. | 736 | 1,796 | 2,835 | 1,682 | 5,649 | 1,314 |
| Average | 900 | 2,300 | 2,620 | 1,270 | 4,900 | 1,350 |
| Std. Dev. | 113 | 585 | 160 | 268 | 463 | 158 |
| 1930 | | | | | | |
| Jan. | 716 | 1,418 | 2,923 | 763 | 5,837 | 891 |
| Feb. | 648 | 1,523 | 3,115 | 898 | 5,733 | 663 |
| Mar. | 523 | 1,320 | 3,207 | 925 | 5,622 | 725 |
| Apr. | 451 | 1,159 | 3,183 | 1,031 | 5,419 | 612 |
| May | 419 | 1,027 | 3,496 | 1,159 | 5,365 | 858 |
| June | 375 | 983 | 2,917 | 1,554 | 5,504 | 563 |
| July | 347 | 1,228 | 2,838 | 1,638 | 5,683 | 477 |
| Aug. | 450 | 1,167 | 3,341 | 1,427 | 5,791 | 541 |
| Sept. | 602 | 1,043 | 3,628 | 1,386 | 5,628 | 428 |
| Oct. | 469 | 1,221 | 3,268 | 1,783 | 5,833 | 107 |
| Nov. | 533 | 985 | 3,783 | 2,055 | 5,686 | 310 |
| Dec. | 587 | 966 | 4,021 | 1,341 | 6,059 | 585 |
| Average | 510 | 1,170 | 3,310 | 1,330 | 5,680 | 570 |
| Std. Dev. | 107 | 174 | 349 | 374 | 185 | 204 |

LIABILITIES (thousands of dollars)

| Month | Accounts Payable | Dividends Payable | Accrued Accounts | Local Taxes | Contingency Reserve | Capital Stock | Surplus |
|---|---|---|---|---|---|---|---|
| 1926 | | | | | | | |
| Jan. | 397 | 638 | 432 | 68 | 140 | 3,191 | 3,598 |
| Feb. | 431 | 225 | 518 | 54 | 120 | 3,312 | 4,002 |
| Mar. | 486 | 102 | 477 | 23 | 160 | 3,565 | 4,709 |
| Apr. | 534 | 763 | 521 | 75 | 172 | 3,420 | 3,787 |
| May | 420 | 549 | 606 | 23 | 187 | 3,280 | 3,189 |
| June | 357 | 351 | 428 | 49 | 153 | 3,533 | 2,632 |
| July | 495 | 187 | 493 | 76 | 138 | 3,487 | 3,119 |
| Aug. | 538 | 686 | 527 | 68 | 150 | 3,389 | 2,873 |
| Sept. | 622 | 538 | 469 | 95 | 149 | 3,594 | 2,794 |
| Oct. | 715 | 740 | 448 | 36 | 200 | 3,648 | 2,754 |
| Nov. | 648 | 421 | 505 | 72 | 171 | 3,750 | 3,796 |
| Dec. | 837 | 440 | 576 | 81 | 180 | 3,831 | 3,907 |
| Average | 540 | 470 | 500 | 60 | 160 | 3,500 | 3,430 |
| Std. Dev. | 136 | 212 | 52 | 22 | 22 | 184 | 609 |

(*Continued on page* 40)

# Paging the new books

**Reviews of the important books on business, to aid executives whose reading hours are limited.**

### This month's business book

BETTER DIVIDENDS THROUGH BETTER THINKING. By Frank H. Skipper, The May Company, Los Angeles, Cal.

Frank H. Skipper, who has been a contributor to the pages of CREDIT AND FINANCIAL MANAGEMENT, has written a new book entitled *Better Dividends Through Better Thinking*.

Mr. Skipper is well known to business men throughout the country as an ardent exponent of the "art of paragraphic thinking." He devotes a chapter in his new volume to this subject, contending that "the fundamental foundation stone of Paragraphic Thinking is that it completely divorces decision from expression. These vital functions must be seen as separate operations of the thinking factory, each demanding one hundred per cent. cooperation."

Mr. Skipper's entire approach to his proposition is from the premise that the brain is a "thinking factory." He contends that fundamental rules, methods, procedures and principles are as applicable to "the thinking mind" as they are to a business organization. This volume is an apostalic message illustrating the application of practical methods of scientific thinking to *every* business problem. The principles and practices of business administration and organization have been evolved to enable business men to show a net profit on operations. The principle and practices of "thought administration" as evolved and presented by Mr. Skipper show, in much the same way, how you can show a net profit on your thinking operations.

Can you distinguish the difference between vision and imagination and apply the forces of these two mutual qualities in the most effective way in your daily work? Do you know how to build vision through background? Do you know how to develop a personal *measuring stick* to control and order your thinking factory? These are just a few of the dozens of valuable and practical questions answered by this book. There is no better authority in the country on personnel problems than Mr. Skipper, who is Director of Personnel for the Pennzoil Company. To every business executive who manages men, *Better Dividends Through Better Thinking* is a handbook of inestimable practical importance.

—CHESTER H. MCCALL.

### ? Are you a "mooch" ?

FINANCIAL RACKETEERING. William Leavitt Stoddard. Harper & Bros. New York.

Suppose an "airedale" called at your business office this morning because he had heard, from a "dynamiter" he met yesterday and a "coxy" who had sold you some stock a week before, that you are a "lily." And suppose this "reloader" or "airedale" showed you a "tipster sheet" to prove his arguments and "scenery" to give you an idea of the reputability of the stock. Would you be enough of a "mooch" to buy? Or would you turn him down only to succumb on the morrow to the "boiler room"?

It all depends. If you had already read *Financial Racketeering* by William Leavitt Stoddard you would be on the alert and probably not be a "sucker." You would also recognize the terms used in the first paragraph for they appear in the pages of this volume which narrates the financial swindles of the past years, from Ponzi to Page & Shaw, shows the details of these big jobs and gives those who will read a chance to run from glib-tongued stock salesmen.

It is a colorful book, in its way, having the spice that contemporary events can impart added to its exposé features in showing the workings of commercial and financial crime in America. Credit executives will see in it another angle of the vast problem which they have been militantly attacking for years by means of the Fraud Prevention Fund.

If there is nothing new under the sun, then no one with stock market inclinations should miss this book. When the next boom comes around that corner and money is easy to make (and to lose) similar swindles engineered by similar "airedales", "dynamiters", and "hundred percenters" will be upon us. Now is the time to begin to be wary.

—PAUL HAASE.

### Full of facts and figures

ECONOMIC CONTROL OF QUALITY OF MANUFACTURED PRODUCT. W. A. Shewhart. D. Van Nostrand Company, New York.

Although primarily intended for those interested in manufacturing problems, this book is a storehouse of knowledge for those dealing with problems which require statistical analysis. The executive, credit manager, etc., will find chapters which deal with the fundamental problem of "control", what is meant by control, the scientific basis of control and the advantages secured therefrom. The laws basic to control are clearly enunciated in addition to a clear statement of the meaning of statistical control and the necessary conditions for maximum control.

Chapters V-IX consider the best methods of presenting data in tabular and graphical form. These chapters will be found exceptionally valuable to those in the credit field who are engaged in making daily analyses of masses of data to obtain the pertinent information contained therein.

Criteria for testing data are established which are based upon the latest probability theory as well as a mass of experimental data in the field of small samples. This work contains a mathematical treatment of modern statistical methods to be used for obtaining the maximum benefits from quantity production or from any economic system. It will be found a valuable help to those who desire to apply the latest and most exact statistical methods to their problems.

—HARRY G. ROMIG

### Among those present:

THE COMMERCIAL PAPER MARKET. Roy A. Foulke. Bankers Publishing Co., N. Y.—Covering the entire field of activity of open market commercial paper and its importance in the ebb and flow of business activity.

## Monthly sales, collection survey

(*Continued from page* 27)

fell back to previous levels.

NEW YORK: Albany states that there is less unemployment in their city than in other places and that money is getting freer for building. Cold weather means increased coal sales. From Utica we hear that while some lines are still reporting good in both collections and sales, the fair and slow ones balance the good record. Price drop in foodstuffs has its effect. Knit goods report sales and collections both good. Some collections are reported slow owing to bank failures and checks held up on that account.

NORTH CAROLINA: Charlotte furnishes us with a business survey as follows: Volume of sales October '31 compared with September '31, 54% smaller; October '31 compared with October '30, 82% smaller; year 1931 to date compared with 1930, 82% smaller. Collections—November '31 compared with October 1931—half find it smaller and half found collections larger. Receivables—volume November 1, '31 compared with same month, 1930, 66% smaller. Failures experienced during 1931 compared with 1930 40%. In answer to question "Do you anticipate during next 90 days failures compared with same period last year" 54% stated more. In answer to what trend is anticipated in sales and collections during next six months 44% stated fair. Reports on Agricultural conditions are—Good 67%, Fair 21%, Poor 12%, and on Employment conditions, Good 6%, Fair 75% and Poor 19%.

OHIO: The closing of the largest bank in Dayton has affected both collections and sales considerably. Toledo finds a little seasonal improvement in sales.

OKLAHOMA: Tulso reports Christmas buying and oil situation bad—increase to betterment is going to be very slow—a great number of liquidations now.

OREGON: Portland advises that there seems to be a gradual improvement toward better conditions.

PENNSYLANIA: Due to seasonal fluctuation collections are off in Johnstown as compared to last year, but are now more consistent than during the past three months. Sales are fair and neither merchants nor wholesalers seem pleased with volume and are not expecting a heavy holiday business.

RHODE ISLAND: Collections in the past six months in Providence are better than for the same period last year. A good holiday business is anticipated.

SOUTH DAKOTA: Sioux Falls found first half of November slow in collections, but last half fair.

TENNESSEE: Collections are looking brighter in Chattanooga and orders are small but coming better. Knoxville states that with the tobacco markets opening in one more week it is expected both sales and collections will show a decided improvement. Memphis finds current collections good, warm weather having a bad effect on sales, but there is a hope for an increase.

TEXAS: Dallas expects an improvement in collections and states that buying is getting a good start. Fort Worth reports both sales and collections seem on an upward trend. Everyone appears in a better frame of mind and seem to have the feeling that the future will be brighter. Houston, upon sending a questionnaire to the members developed the fact that in sales and collections about 50% said "slow" and 50% "fair".

WASHINGTON: Bellingham finds that collections are retarded due to the fact that taxes are due November 30. Retail business in this city is fair but wholesale is not—this, it is believed is due to seasonal condition.

WEST VIRGINIA: Huntington in a personal survey conducted finds that better results are being obtained from collection efforts than from sales efforts.

WISCONSIN: The collections in Fond du Lac are still slow and the fact that there has been no improvement in sales is due to weather.

### No collateral

Two Georgia darkies were discussing the financial condition of the country. They didn't agree.

"You's all wrong," one vociferated. "Dey ain't no money sho'tage. Ah asked mah bankuh is he out o' money and he tuk me in de vault and showed me piles an' piles o' money. An' I says could he let me have jes' a little. An' he says sho' he could. Has Ah any col-lat'rul? An' Ah hasn't. Now dat's what's de mattuh wif dis country. Dey's plenty o' money but we'se jes' runnin' sho't on collat'rul."—*The Bankers' Monthly.*

# In the modern office

**An idea and experience exchange on equipment, system and management in the modern credit and business office.**

### Teletypewriter service

More than 500 service orders were received at telephone business offices during the first half of the day on which the teletypewriter service was first offered to the public. This new service enables any subscriber to typewrite by wire instantly to any other subscriber no matter where located. The particular value to business of this service is its usefulness for two-way communication. Written messages typed on the machines can pass in either direction between any two subscribers. The page type of machines is particularly adapted to the transmission of letters, copies of orders, tabular matter, etc., in page form for record purposes and filing as well as for immediate reference. The new teletypewriter service will be nation-wide in scope, with costs based on the time the circuits are used and wire mileage involved. A universal teletypewriter directory is already being compiled. This will contain the names of subscribers arranged alphabetically under the cities in which their offices are located. The directory will be kept up-to-date. The advantages to business of this extension of the teletypewriter system are too obvious to require comment.

### Bookkeeping typewriter machine

Underwood Elliott Fisher Company announce the Underwood Simplex Accounting Machine, which may be used interchangeably as a standard typewriter and for bookkeeping involving direct addition and subtraction in as many as twenty-five separate columns of figures. The new machine has been designed as an economy and utility machine for small business, and for handling the heavy volume of departmental accounting work of large corporations. This is the seventh new model introduced by this company this year.

### Office manager or . . .?

Among the medium sized companies there is a confusion of terms. An Office Manager is not an Office Boy. Too frequently a capable man is tied with petty details and relegated to the supervision of routine rather than the execution of plans and policies. Needless to say, really worth while men seldom remain in such positions. If you will scan the "Help Wanted" advertisements in city newspapers you will see this attitude reflected in the tone of the advertisements and in the salaries offered. Among larger companies, the Office Manager, although he may not have this specific title, is given broad responsibilities and held accountable for the smooth, efficient performance of office routine. Since there is, generally, less waste in larger companies, it would seem that this is the correct attitude.

### Guide to accounting procedure

"Accounting To Increase Profits," a manual recently issued by the National Blank Book Company, thoroughly explains this company's new Unit Accounting System and illustrates how the system operates. This accounting method is devised to meet the needs of an average mercantile business. A choice of forms is provided, however, to make possible the adaptation of the National Unit Accounting System to any business. In general, the system provides for a quicker and more accurate proving and summarizing of entries and the immediate preparation of intelligible Monthly Reports showing position and progress of the business. Each class of transactions is recorded on separate forms or records. Groups of closely related forms are assembled in units or binders for convenience and accessibility. The plan facilitates auditing because each separate unit or record can be removed individually without interfering with the bookkeeper's work. The Manual is a complete textbook of accounting practice, containing complete accounting procedure, charts, description of accounts, specimen entries, explanations, etc. A thorough index makes reference easy. "Accounting To Increase Profits" should prove especially helpful to Public Accountants and Auditors in installing or revising accounting systems since it relieves them of much of the work usually necessary in instructing bookkeepers.

### New blueprint file has advantages

The "Accoway Filing System" of Acco Products, Inc., adapts the vertical filing principle to the handling of large sheets such as blueprints, tracings, maps, etc. The system can be installed for a few papers and expanded, by the addition of units, as the number grows. This system makes reference to large sheets possible without removal from the file, since every sheet is fully visible. It consists of swinging arms, from which sheets are suspended by a special fastener, housed in neat appearing cabinets. It would seem to have many advantages over the traditional flat method of filing bulky sheets.

### Filing and finding made easier

Remington Rand's new Flexiblock holds file material perfectly straight. This filing accessory is kept in a vertical position by strong springs. Yet a very slight pressure sends it back on rollers to a "V" position. As soon as pressure is released the Flexiblock returns to its original erect position. Folders, guides cannot slip or slump; papers are not bent or torn. Can be installed in any file. By replacing the follower-block with a Flexiblock, additional room is secured in each drawer through elimination of the follower. The company recommends four Flexiblocks for each file drawer for best results.

### Private watermarked paper

Through a special, patented process, even users of only 5,000 letterheads may now enjoy the prestige value of a private "papermark." From the standpoint of sales promotion anything which tends to individualize a company and identify it in the customer's mind is worth while. Privately marked paper may, therefore, justify its additional cost. Should any readers be interested we will be glad to supply information as to where this type of letterhead is available.

## Statistics' aid in credit analysis

(*Continued from page 35*)

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 1927 | | | | | | | |
| Jan. | 921 | 375 | 633 | 75 | 175 | 3,921 | 3,574 |
| Feb. | 874 | 481 | 685 | 63 | 183 | 3,736 | 3,348 |
| Mar. | 768 | 529 | 521 | 82 | 197 | 4,108 | 3,899 |
| Apr. | 993 | 463 | 543 | 77 | 160 | 4,217 | 3,027 |
| May | 872 | 728 | 488 | 61 | 144 | 4,086 | 2,961 |
| June | 935 | 852 | 596 | 52 | 151 | 4,121 | 2,035 |
| July | 1,087 | 987 | 721 | 87 | 172 | 4,235 | 1,865 |
| Aug. | 954 | 457 | 805 | 96 | 163 | 3,983 | 2,808 |
| Sept. | 1,128 | 598 | 763 | 105 | 147 | 4,195 | 3,204 |
| Oct. | 1,241 | 723 | 611 | 88 | 135 | 4,037 | 3,386 |
| Nov. | 1,054 | 895 | 703 | 92 | 182 | 4,218 | 3,062 |
| Dec. | 933 | 712 | 611 | 82 | 231 | 4,103 | 4,511 |
| Average | 980 | 650 | 640 | 80 | 170 | 4,080 | 3,140 |
| Std. Dev. | 112 | 188 | 94 | 15 | 25 | 139 | 693 |
| 1928 | | | | | | | |
| Jan. | 1,123 | 757 | 754 | 112 | 190 | 4,121 | 3,851 |
| Feb. | 1,087 | 822 | 672 | 93 | 165 | 4,037 | 4,010 |
| Mar. | 965 | 908 | 805 | 75 | 142 | 4,085 | 3,603 |
| Apr. | 854 | 871 | 852 | 62 | 176 | 3,919 | 3,761 |
| May | 1,027 | 822 | 837 | 98 | 183 | 3,837 | 4,103 |
| June | 981 | 954 | 763 | 83 | 208 | 4,006 | 3,686 |
| July | 897 | 919 | 691 | 79 | 191 | 4,119 | 4,642 |
| Aug. | 1,062 | 862 | 742 | 84 | 185 | 4,258 | 4,167 |
| Sept. | 1,133 | 741 | 813 | 125 | 170 | 4,368 | 4,866 |
| Oct. | 1,208 | 625 | 869 | 97 | 160 | 4,451 | 4,982 |
| Nov. | 1,319 | 718 | 904 | 83 | 182 | 4,363 | 4,729 |
| Dec. | 1,064 | 841 | 898 | 89 | 208 | 4,356 | 5,440 |
| Average | 1,060 | 820 | 800 | 90 | 180 | 4,160 | 4,320 |
| Std. Dev. | 124 | 91 | 73 | 16 | 18 | 189 | 576 |
| 1929 | | | | | | | |
| Jan. | 1,421 | 835 | 931 | 93 | 191 | 4,221 | 3,435 |
| Feb. | 1,563 | 927 | 987 | 87 | 215 | 4,542 | 3,061 |
| Mar. | 1,829 | 1,015 | 1,033 | 125 | 230 | 4,687 | 3,803 |
| Apr. | 1,754 | 1,122 | 1,259 | 74 | 190 | 4,423 | 3,785 |
| May | 1,887 | 974 | 1,368 | 86 | 207 | 4,210 | 4,002 |
| June | 1,695 | 918 | 1,495 | 92 | 180 | 4,035 | 5,436 |
| July | 1,707 | 825 | 1,568 | 83 | 176 | 3,929 | 6,109 |
| Aug. | 1,838 | 763 | 1,307 | 68 | 150 | 4,216 | 6,420 |
| Sept. | 1,922 | 1,054 | 1,411 | 119 | 121 | 4,408 | 5,282 |
| Oct. | 2,054 | 838 | 1,513 | 93 | 165 | 4,565 | 4,346 |
| Nov. | 2,181 | 921 | 1,602 | 87 | 183 | 4,627 | 4,454 |
| Dec. | 2,109 | 968 | 1,486 | 73 | 152 | 4,937 | 4,287 |
| Average | 1,830 | 930 | 1,330 | 90 | 180 | 4,400 | 4,580 |
| Std. Dev. | 212 | 75 | 223 | 16 | 29 | 278 | 955 |
| 1930 | | | | | | | |
| Jan. | 2,251 | 854 | 1,712 | 95 | 195 | 4,554 | 2,887 |
| Feb. | 2,329 | 812 | 1,841 | 121 | 180 | 4,387 | 2,910 |
| Mar. | 2,107 | 762 | 1,927 | 72 | 175 | 4,723 | 2,556 |
| Apr. | 2,056 | 645 | 1,836 | 68 | 203 | 4,408 | 2,639 |
| May | 1,992 | 838 | 1,705 | 104 | 210 | 4,212 | 3,263 |
| June | 1,873 | 921 | 1,608 | 93 | 192 | 4,078 | 3,131 |
| July | 1,925 | 756 | 1,541 | 86 | 185 | 3,921 | 3,797 |
| Aug. | 1,831 | 809 | 1,622 | 125 | 176 | 4,165 | 3,989 |
| Sept. | 1,722 | 925 | 1,541 | 93 | 160 | 4,276 | 3,998 |
| Oct. | 1,892 | 853 | 1,307 | 81 | 154 | 4,358 | 4,036 |
| Nov. | 1,704 | 981 | 1,212 | 67 | 182 | 4,136 | 5,150 |
| Dec. | 1,958 | 804 | 1,588 | 75 | 148 | 4,382 | 4,604 |
| Average | 1,970 | 830 | 1,620 | 90 | 180 | 4,300 | 3,580 |
| Std. Dev. | 183 | 85 | 201 | 19 | 18 | 208 | 779 |

As a rapid check of these statements, the sum of the Assets must equal the sum of the Liabilities. Having five average and standard deviation values for each of the six Asset items and for each of the seven Liability items, we can next determine the degree of control for all thirteen items, obtain an average t value for averages and an average t value for standard deviations, give each item an appropriate weight and obtain an overall index for the Firm.

The best estimate of the average is the simple average of the five yearly average values for each item. The best estimate of the standard deviation is found by taking the average of the standard deviation values for each year and multiplying by 1.0685, which is the correction factor to be applied to a group of standard deviations where the number of observations for each group is the same, in this case 12. These values, together with the weights (w) used and the values of t for each year for both the average and standard deviation as obtained by the methods previously outlined, are given in the table below.

(*Continued on page* 42)

# Statistics' aid in credit analysis

(*Continued from page* 40)

STANDARD VALUES FOR AVERAGE (M), STANDARD DEVIATION (s) STANDARD DEVIATION OF M ($s_M$), STANDARD DEVIATION OF s ($s_s$), WITH t VALUES AND WEIGHTS FOR AVERAGES AND STANDARD DEVIATIONS

(5 Year Data of Assets and Liabilities)

*Assets*

| Item | Cash | Investments | Accounts Receivable | Inventory | Property | Deferred Charges | Overall |
|---|---|---|---|---|---|---|---|
| M | 732 | 1530 | 2412 | 978 | 4638 | 858 | |
| s | 131 | 308 | 262 | 217 | 317 | 184 | |
| d* | 123 | 288 | 245 | 203 | 297 | 172 | |
| $s_M$ | 38 | 89 | 76 | 63 | 92 | 53 | |
| $s_s$ | 27 | 63 | 53 | 44 | 65 | 38 | |

t Values for Averages

| | Cash | Investments | Accounts Receivable | Inventory | Property | Deferred Charges | Overall |
|---|---|---|---|---|---|---|---|
| w | .2 | .1 | —.3 | —.1 | .1 | —.2 | |
| Year | | | | | | | |
| 1926 | .7 | —1.5 | —6.8 | —6.0 | —11.3 | —8.6 | 3.22 |
| 1927 | —.8 | —2.0 | —5.7 | —3.5 | —5.3 | —1.9 | 1.55 |
| 1928 | 1.5 | —1.1 | —2.1 | —.8 | 2.4 | 5.9 | —.04 |
| 1929 | 4.4 | 8.7 | 2.8 | 4.7 | 2.9 | 9.3 | —1.13 |
| 1930 | —5.9 | —4.1 | 11.9 | 5.6 | 11.4 | —5.4 | —3.50 |

t Values for Standard Deviations

| | Cash | Investments | Accounts Receivable | Inventory | Property | Deferred Charges | Overall |
|---|---|---|---|---|---|---|---|
| w | —.2 | —.1 | —.2 | —.2 | —.1 | —.2 | |
| Year | | | | | | | |
| 1926 | 1.3 | —.5 | —1.3 | —1.1 | —1.7 | .5 | .34 |
| 1927 | .5 | —.3 | —1.1 | —2.0 | —1.9 | —1.3 | .56 |
| 1928 | —.8 | —2.1 | —.2 | —2.3 | 2.7 | .3 | .54 |
| 1929 | —.4 | 4.7 | —1.6 | 1.5 | 2.6 | —.4 | —.55 |
| 1930 | —.6 | —1.8 | 1.9 | 3.9 | —1.7 | .8 | —.85 |

*Liabilities*

| Item | Accounts Payable | Dividends Payable | Accrued Accounts | Local Taxes | Contingency Reserve | Capital Stock | Surplus | Overall |
|---|---|---|---|---|---|---|---|---|
| M | 1276 | 740 | 978 | 82 | 174 | 4088 | 3810 | |
| s | 164 | 139 | 137 | 19 | 24 | 213 | 772 | |
| d* | 154 | 130 | 129 | 18 | 23 | 200 | 722 | |
| $s_M$ | 47 | 40 | 40 | 5 | 7 | 62 | 223 | |
| $s_s$ | 34 | 28 | 28 | 4 | 5 | 44 | 157 | |

t Values for Averages

| | Accounts Payable | Dividends Payable | Accrued Accounts | Local Taxes | Contingency Reserve | Capital Stock | Surplus | Overall |
|---|---|---|---|---|---|---|---|---|
| w | —.2 | —.2 | —.1 | —.1 | .1 | .1 | .2 | |
| Year | | | | | | | | |
| 1926 | —15.5 | —6.7 | —12.1 | —4.1 | —2.0 | —9.5 | —1.7 | 4.57 |
| 1927 | —6.2 | —2.2 | —8.5 | —.4 | —.6 | —.1 | —3.0 | 1.90 |
| 1928 | —4.6 | 2.0 | —4.5 | 1.5 | .9 | 1.2 | 2.3 | 1.49 |
| 1929 | 11.7 | 4.7 | 8.9 | 1.5 | .9 | 5.1 | 3.5 | —3.02 |
| 1930 | 14.6 | 2.2 | 16.2 | 1.5 | .9 | 3.4 | —1.0 | —4.90 |

t Values for Standard Deviations

| | Accounts Payable | Dividends Payable | Accrued Accounts | Local Taxes | Contingency Reserve | Capital Stock | Surplus | Overall |
|---|---|---|---|---|---|---|---|---|
| w | —.2 | —.1 | —.1 | —.1 | —.1 | —.2 | —.2 | |
| Year | | | | | | | | |
| 1926 | —.5 | 2.9 | —2.7 | 1.2 | —.1 | —.4 | —.7 | .19 |
| 1927 | —1.2 | 2.0 | —1.2 | —.8 | .6 | —1.4 | —.2 | .50 |
| 1928 | —.9 | —1.4 | —2.0 | —.4 | —.9 | —.2 | —.9 | .87 |
| 1929 | 1.8 | —1.9 | 3.4 | —.3 | 1.3 | 1.8 | 1.5 | —1.27 |
| 1930 | .9 | 1.6 | 2.6 | .3 | —.9 | .2 | .4 | —.66 |

*d is the expected value of s, being the average of the 5 observed s values.

It is possible to combine these results and obtain one overall composite picture, giving weights to the Averages, Standard Deviations, Assets and Liabilities whose sum, neglecting signs, would total 1.0. The results above show that the firm was not controlled in many respects during the period under discussion. It is therefore advisable to review those items which are uncontrolled to see if the causes are in a favorable or unfavorable direction with respect to credit relations. The additional information which may be secured by the proper filling out of such a Credit Form as may appear feasible for the firm in question will be of great assistance to the credit manager in arriving at a final conclusion.

In addition to the analysis thus far made a study may be made of one or more of the following ratios, which are often found useful:

(1) Ratios of receivables to merchandise.
(2) Ratio of net worth to fixed assets.
(3) Ratio of total debt to net worth.
(4) Ratio of sales to receivables.
(5) Ratio of sales to merchandise.
(6) Ratio of sales to net worth.
(7) Ratio of sales to fixed assets.

An analysis may be made of these ratios by the same method used above to determine the degree of control exercised over the past years and the current year. These studies give a fundamental foundation upon which a credit rating may be established. Where the firm has operated within the prescribed limits, a forecast of future business will be basically sound and credit may be unhesitatingly given. Thus we find that the principle of economic control of the individual components of a business must be understood by the credit manager in order that he may perform his functions in the best possible manner.

## The business thermometer

(*Continued from page* 9)

houses with which they are associated by a more thorough comprehension of the moral risk, are rarely involved in bringing unwise and unnecessary pressure to bear on delinquents, who, working under extraordinary conditions, are in an unfavorable position, but, who, with cooperation, could easily work out of it.

More moderation, the exercise of better judgment, and a more complete comprehension of the whole situation, supported by a little more courageous vision, it is believed, would be very helpful in handling the current situation.

Hence it is that certain credit men are stressing the points referred to, believing that moderation has exceptional virtue at this time and that a disposition to investigate all cases before forming an opinion would yield very satisfactory results.

## Figures do lie

(*Continued from page* 19)

is just as important as the amount of it. To ignore the former is to have a distorted picture of our opportunities for profitable sale of commodities.

Any satisfaction which we may derive from the statement that the country is "basically sound" will depend a great deal upon what we mean by that term. I may be gratified if my physician informs me that my hearing, speech, eye-sight and so on are good and that I have no organic defects. However, my satisfaction in such assurances will not be particularly keen if my muscular coordination is so awry that I cannot properly use the organs which are themselves undiseased.

The laws which relate to our economic organization are not essentially different from those which relate to our physical beings. "Basic soundness" in reference to the amount of wealth in the country is gratifying; but if the distribution of that wealth is not such as to provide for proper coordination of our productive capacity with the ability and willingness to make purchases, it is evident that some corrective treatment is needed. If figures having to do with the amount of wealth are taken merely as indicating that it is possible for us to get back to normal conditions through applying careful thought and action to the functioning of that wealth in the channels of trade, such figures are helpful. If, on the other hand, we use such figures as indicating that there are no real economic difficulties and that things will adjust themselves within a short period of time, then such figures become not only valueless but positively harmful. Under such usage they lull us into a condition of inactivity which is neither conducive to the restoration of satisfactory business conditions nor to the strengthening of the foundations upon which a more permanent prosperity must be based.

During most of the first two years of the depression, figures on the amount of money and of wealth were frequently used with good intentions, but with results which were not so good. While the statistics themselves were given accurately, the conclusions drawn were not only misleading, but in some respects harmful. Instead of constructive activity directed towards the correction of functional disorders in the economic and business body of the Nation, too many of those who were qualified to give leadership contented themselves with citing figures designed to show that after all nothing serious was wrong.

There have been evidences during the past few months that we are losing some of the blind adoration which has often been given to tables of statistics. There have been evidences too that business leaders are refusing to accept the conclusion that no corrective measures are necessary so long as the figures on money, wealth, etc., show the country to be basically sound. If this attitude, bred in the distress of continued depression, can be carried over into the coming era of prosperity, at least one tangible benefit will have been derived from our time of difficulty; for even though figures are not natural liars, they may be made to lie most atrociously and harmfully.

## Gold: not guilty

(*Continued from page* 12)

very much higher than the average index numbers would have been for these same 9 years had prices increased from 1913 to that time at only the same average rate (2.6%) that they increased from 1896 to 1913, which would have given an average for the period of 136. Since 1929, however, the United States wholesale price index number fell from 138 to 106 (August 1931), or by 23 per cent. Prices are now materially lower than in August, although the Bureau of Labor Statistics index numbers are not available for a later date. So far as wholesale prices are concerned, we are back again very near to the 1913 level.

Whatever may be the explanation of this last great and sharp decline in commodity prices, it is not, in my judgment, to be found either in a decline in the world's gold production or in a maldistribution of the world's monetary gold.

Carl Snyder's valuable study of the physical volume of production, covering the principal advanced countries of the world, shows for the period 1865 to the present time an annual average rate of increase (geometrical) of about 3 per cent for the world and of about 4 per cent for the United States.

According to the figures of the United States Director of the Mint, the world's stock of monetary gold in 1921 was $8.7 billion. If this stock were increased progressively by 3 per cent a year from 1921 to the present time, it would be approximately $11.3 billion for 1930. This is exactly what the world's stock of monetary gold was for that year.

Obviously, therefore, during this period, 1921 to 1929, in which the wholesale price level was fairly stable in the neighborhood of 138 to 148 (on the 1913 base), the world's stock of monetary gold increased at approximately the same rate as the world's normal physical productivity. These, however, were abnormal times of world post-war readjustments. Under normal conditions there should be no need of a full 3 per cent annual increase in the world's stock of monetary gold to take care of a 3 per cent increase in the physical volume of business because, with continually improving currency and banking organizations, with increasing co-operation on the part of central banks, with the increased use of checks in business transactions in substitution for coin and notes, and with increasing rates of monetary and deposit turnover, the efficiency of mone-

(*Continued on page* 47)

# Answers to credit questions

## Conducted by Walter C. Foster

**The National Association of Credit Men supplies answers to credit questions and some of the answers, of general interest, are printed regularly in Credit and Financial Management. Advice cannot be given, however, regarding legal rights and liabilities. Such advice should be obtained from an attorney to whom all the facts should be stated. When such inquiries are received, information is furnished only as to the general principles of law involved.**

### Mechanic's liens

Q. *Where a manufacturer of building materials sells material to a dealer, who in turn sells the goods to a plastering contractor who uses the material on a building, has the manufacturer a right of lien?*

A. The manufacturer has no right of lien unless the material was sold to the dealer for use in the building against which it is sought to claim a lien. That is, if the dealer purchased the goods under an agreement with the manufacturer that the goods were to be used in a certain building, the lien right would exist even though the goods were actually used by a plastering contractor and not by the dealer himself. In the absence of such circumstances, in our opinion, there is no lien right. See 40 C. J. 88.

### Promissory notes

Q. *Where a note is given to a bank for collection, made payable to John Smith and paid upon due date of the same, the note being marked paid by the bank although not endorsed by John Smith, is the endorsement of John Smith on the back of the note, under the conditions named, necessary from the standpoint of law?*

A. Under the facts stated, if the note in question was actually paid to John Smith, it makes no difference whether it was endorsed by him or not. The maker of the note, in the absence of an endorsement by John Smith, should for his own protection, have either a receipt from John Smith acknowledging that the note was paid to him, or he should have an affidavit from the bank to the effect that the money was actually paid to Smith.

### Acceleration of notes given to secure payment of overdue accounts

Q. *When a series of notes is accepted from a customer to secure the payment of overdue accounts, and the customer fails to pay a particular note, can the holder bring any action against him for payment of the balance of the notes?*

A. There is no reason why, when a series of notes is given to secure payment of overdue accounts, that failure of the payment of one in the series should not operate as an acceleration of the balance of the notes due. This can best be accomplished by a statement on the face of the notes themselves to the effect that "This is a series of notes given to secure indebtedness upon overdue accounts. In case of non-payment at maturity of any of the said notes, all subsequent notes shall immediately become due and payable at the option of the legal holder thereof and the makers, endorsers and all guarantors of said notes severally waive demand, protest and presentation for payment and notice of non-payment and protest."

### Liability of holding corporation

Q. *Where a holding corporation owns the majority of stock in several other corporations, is the holding corporation responsible for the debts of the corporations in which it holds the majority stock? Reversing the situation, are the several corporation units in a holding system responsible for debts contracted by the holding corporation?*

A. The mere fact that one corporation owns the stock of another does not of itself make the holding corporation responsible for the debts of the subsidiary, nor vice versa. There may be circumstances under which the respective corporations may become liable for each other's debts, such as when they are in truth and in fact the same, mingling their funds, keeping one set of books and carrying on their business transactions in disregard of the distinction between the corporate entities.

Except under such exceptional circumstances one corporation will be liable for the debts of another only when such debts have been assumed or guaranteed.

## Addresses wanted

BARBER, I. N., 332 Denver Avenue, Kansas City, Mo.
BECK, M. L., painter and decorator, formerly 216 N. Klein Street, Oklahoma City, Okla.
BRUNO, A. S., formerly connected with the Creditors Bureau Furniture Industries, Chicago. Also located in Memphis representing Showers Co., Bloomington, Ind. and Birmingham Stove and Range Company, Birmingham, Ala.
CANTOR, NAT, operated a truck line between Ocala and Jacksonville, Florida. Now located in New York City.
DASO, EARL E., Pennzoil Station, E. 82nd and Carnegie, Cleveland, Ohio.
FELSENTHAL, DAVE, traveling salesman, formerly made his home in Cleveland, Ohio. Reported to be in Chicago.
FUNSON, MR. and MRS. E. L. (wife—Susie; Son—E. C.) formerly of 245 Lincoln Avenue, Syracuse, New York.
GOLD, JAY, formerly 7058 Garrett Road, Upper Darby, Pa.
GROSSMAN, HARRY, 2002 Rosewood Avenue, Richmond, Va.
KRAUSE, HERMAN, engaged in the shoe business, New Braunfels, Texas.
MARVIN, RAYMOND, painter and decorator, formerly at 8734 Morley Street and 11762 Kentucky Avenue, Detroit, Michigan.
McKERNON, JOHN, formerly at 2200 Powell Avenue, Bronx, N. Y.
MUSHRUSH, N. R., painter and decorator, formerly 2419 W. "E" Street, Oklahoma City, Oklahoma.
RITTEN, D. D., 1975 Pingree Street, Detroit, Michigan, formerly represented Cluett, Peabody Company and Hanover Shirt Company in the City of Detroit.
RUSSELL, DONALD G., formerly located at 2824 W. Marquette Rd., Chicago, Ill.
TRIER, J. ELECTRIC SHOP, 1659 Addison Street, Chicago, Ill.
WILSON, W. O., 16941 Harper St., Detroit, Mich.
WOLFRATH, WILLIAM F., Somerset, Penna.

## Copper comes a cropper

(*Continued from page 25*)

done in the way of negotiations. Some of the smaller producers must be lined up for the plan.

Moreover, while the agreement might be negotiated through cable and other means of communication, it may be necessary to bring the representatives of the various producing interests together again for a formal ratification of a "gentlemen's agreement" to reduce output.

Copper men here were inclined to believe that announcement of the withdrawal of the Phelps Dodge Corporation, third largest producer, from Copper Exporters, Inc., had a good deal to do with the change in attitude on the part of the Belgians.

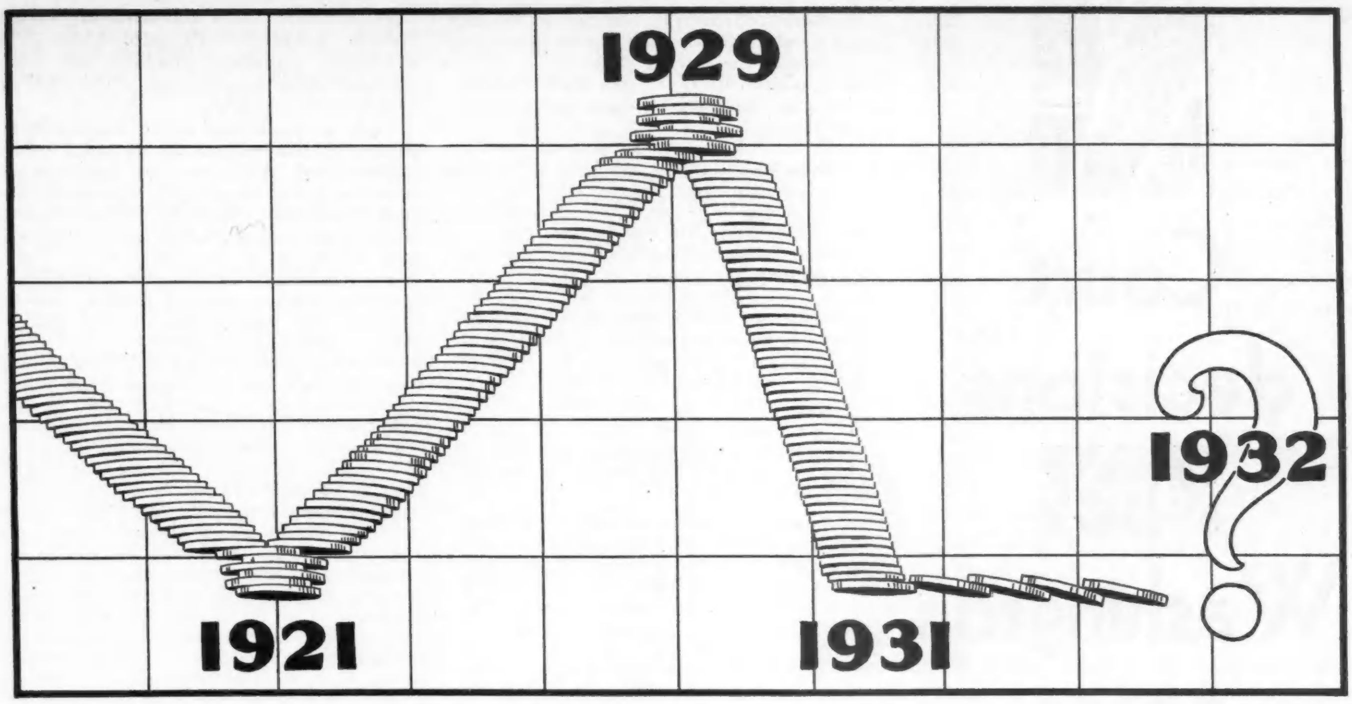
Copper Exporters, Inc., is the co-operative selling organization for mines representing about 90 per cent. of the world's output of copper in the export market. Inasmuch as the Katanga interests have been one of the leading exponents of copper-marketing schemes, it was believed they were alarmed over a threatened breakup of Copper Exporters.

Phelps Dodge made no explanation of its withdrawal from Copper Exporters. There has been dissatisfaction in the ranks of the selling agency for some time, partly because the export price had been maintained out of the normal relationship with the domestic quotation. However, it was feared a disruption of the organization would add to the unsettlement of the copper industry, laboring under the burden of a large stored surplus and the lowest price for the red metal in history at 7 cents a pound, domestic.

Compromise proposals accepted by the Belgians are understood to be based on a maximum capacity of 430,000,000 pounds of copper a year for the Katanga mines, with actual production to be fixed at 115,000,000 pounds, while 60,000,000 additional could be mined, but must be kept off the market until the industry has an opportunity to work off its surplus.

That would mean a curtailment to around 27 per cent. of capacity, which, producers figure, is drastic enough to bring supply into equilibrium with demand and at the same time allow for liquidation of the surplus.

*Editor's Note*—Subsequent to the writing of this article by Mr. Hayes, comes word from Brussels that an accord was reached there late in December, calling for a reduction to 26 per cent. of maximum capacity to take effect January 1, 1932. In line with this, the Phelps Dodge Company has announced the withdrawal of its intention to resign. The new agreement brings production from 120,000 to 85,000 tons monthly and will evidently be signed by all producers.


1929
1921
1931
1932

# Court decisions and Washington notes

## Court decisions

COMPENSATION OF ATTORNEYS. (N. Y.)

*Held* that the words "in contemplation of the filing of a petition by or against him," contained in Section 60 (d) of the Bankruptcy Act, relate only to the state of mind of the debtor and not to what his lawyer thinks about. With respect to compensation of lawyers, the courts are in irreconcilable conflict upon the question as to whether or not Sections 60 (d) and 64 (b) 3 are completely correlative,—the one applying preceding and the other applying subsequent to the filing of the petition. The authorities seem to agree, however, that services the determination of whose value is within the summary jurisdiction conferred by Section 60 (d), must be of a type which renders them germane to the general aims of the Bankruptcy Act. Upon the present record, the referee was fully warranted in concluding, and the inference is inescapable that, when the debtor engaged the respondents, he contemplated bankruptcy. It appears incontrovertibly that the employment was exclusively for the formulation of arrangements that would have adjusted affairs of the debtor in some fashion with all of his creditors and would have affected, for the benefit of the estate, all the assets of the debtor. It is wholly consistant with the language of Section 60 (d) to construe the jurisdiction there conferred to embrace authority summarily to fix the reasonable value of fees for services in such matters,—including attempted adjustments designed to avoid bankruptcy. The court thinks it is clear here that the thought of bankruptcy was the impelling motive of the debtor when he retained the respondents. Referee's order confirmed. *Matter of David Bell Scarves, Inc.* U. S. Dist. Ct. So. Dist. of N. Y. Decided September 25, 1931.

CONTRACTOR'S BOND. SUBCONTRACTOR. INSOLVENCY. MATERIALMEN SET-OFF. (N. J.).

*Held* that a surety is not bound to pay anything that the principal's property can pay. The court of chancery like the bankruptcy court should have allowed a general contractor, who stood in the position of surety for an insolvent subcontractor, to prove for the amount of the debt which the insolvent subcontractor's estate should have paid. A general contractor on public work who gave the bond required by chapter 75 P. L. 1918, and paid, as required by the bond, the sums due for labor and materials furnished on the work to a subcontractor, who became insolvent, may in the insolvency proceedings prove for the amount so paid when such laborers and materialmen do not prove against the insolvent, and set off the amount against its own debt to the insolvent. Decree for receiver-respondent reversed. *Nutz v. Murray-Nutz, Inc. & ano.* N. J. Ct. of Errors and Appeals. Decided October 19, 1931.

BANKRUPT DEPOSITOR. RIGHT OF BANK TO OFFSETS. PREFERENCE TRUST. (N. Y.).

This case turns upon seriously controverted questions of fact. The crux of this case centers around the provision in Section 68 of the Bankruptcy Act as to the circumstances under which set offs may be taken. *Held*, that the Court sees no substantial evidence whatsoever in the record which would sustain a finding that those deposits were made with a view to being used as a set off. The deposits from April 8 to the close of business on April 15 were made in the usual course of business and hence under the statute the defendant had the absolute right to set them off, or, to put in another way, they are not recoverable. With respect to all the transactions up to the close of April 24, the plaintiffs have failed to show that they are entitled to recover. At the trial decision was reserved on the question whether the difference between approximately $43,000 deposited by the bankrupt with the defendant on April 25 and approximately $38,000 already paid over by the defendant to the bankruptcy trustees is recoverable in this suit. Checks or acceptances by the bankrupt, some dated as early as April 22, aggregating the difference were presented to and paid by the defendant some time prior to the adjudication in bankruptcy. In the mean time there had been no injunction granted and no receiver had been appointed in the bankruptcy proceedings. All the payments were made in good faith. Under the Bankruptcy Act the title of a trustee in bankruptcy relates back to the filing of the bankrupt's petition. From this provision of the law the plaintiffs argue that any bank, having knowledge of the insolvency of a customer, and having knowledge that a petition in bankruptcy has been filed against him, may be required to pay over again to the bankruptcy trustees sums which it has already paid on its depositor's checks during the interval between the filing of the bankruptcy petition and adjudication. The contrary, however, has been definitely established by the Circuit Court of Appeals for this Circuit. One of the payments under consideration was to meet a current pay roll of the bankrupt and all the others were to meet charges which probably were liens on the bankrupt's merchandise. In one case, therefore, a priority which otherwise would have depleted the estate to the same extent was discharged and in the other cases actual enhancement of the estate ensued by the release of property which has gone to and has benefited the estate; obviously the defendant did not prefer itself when it paid out money upon orders of the bankrupt. If any preferences resulted, then those who obtained them should be pursued. So also no trust would be impressed as against defendant on the funds in its hands through its receiving or paying them out, in advance of adjudication, as directed by the bankrupt. Whatever may be the rights of the plaintiffs on other grounds, it follows that no cause of action is established for a voidable preference or for a constructive trust. *Stevens et al v. Bank of Manhattan Trust Co. U. S. Dist. Ct. So. Dist. of N. Y.* Decided October 19, 1931.

ASSIGNMENT FOR BENEFIT OF CREDITORS. LIABILITY OF ASSIGNEES AND SURETIES. STATE INSOLVENCY ACT. EXCLUSIVENESS OF NATIONAL BANKRUPTCY ACT. (ARK.).

Where an embarrassed debtor assigned all his property to two assignees for the benefit of his creditors, and the latter were appointed receivers by the chancery court and entered into bond to faithfully account for all such property and to make such disposition of it or the proceeds therefrom as the Court might direct, when, afterwards, a sale was affected of all of the debtor's property to an investment company, and the court ordered them to turn over all of the property, real and personal, to the investment company, and the receivers complied with that order, *held* that no personal liability could attach to the receivers nor to the surety in their bond, even had the proceeding by which the debtor sought to settle with his creditors been void. The proceeding whereby the debtor made an assignment for the benefit of his creditors, and the assignees were appointed receivers, and took charge of the debtor's assets, and afterwards the matter was settled by the acceptance of an offer to take over the debtor's property and to assume his indebtedness, which was accepted by the assignor and the assignees and receivers, and the chancery court ordered the receivers to turn over to the parties offering to assume the indebtedness all of the debtor's property, and the receivers were discharged, was not a proceeding under Crawford & Moses' Digest, chapter 93, on the subject of insolvency. Where, as in this case, there is no badge of fraud connected with the assignment warranting the interference of a court of equity, but the same seems to have been prompted by a sense of duty and a desire to treat all his creditors fairly and impartially and the assignment was made before any proceeding was begun by any creditor, the same will not be impeached for fraud. The State Insolvency Act of 1897, chap. 93, Crawford & Moses' Digest, in so far as it is in conflict with the National Bankruptcy Act, is superseded thereby, and the latter act is exclusive, pertaining to the same subject-matter and the same parties; but an assignment to a trustee for the benefit of creditors, the proceedings conducted and the debtor's estate administered under the provisions of chap. 9 of Crawford & Moses' Digest, do not come into conflict with the National Bankruptcy Act, and the provisions of that chapter were not repealed by the Bankruptcy Act. Judgment in favor of the investment company, the appellee, affirmed. *Finch. v. Watson Investment Co.* Ark. Supreme Ct. Decided October 5, 1931.

## Washington notes

STUDY OF BUSINESS FAILURES

Surveys by the Department of Commerce designed to "isolate the bankruptcy germs," set up warnings of infection and prompt the creation of antidotes against business failures are going forward at the present time in three cities, with principal activities centered in Chicago and Boston, according to "Domestic Commerce."

Chicago bankrupts are being interviewed by representatives of the University of Chicago and the Bureau of Foreign and Domestic Commerce cooperating in studying the common causes of failure in that area. During the five and a half months that this survey has been under way, more than 1,100 bankrupts volunteered to tell their experiences to research men of the two organizations. Business men of every type are represented in the figures as well as salaried employees and wage earners who entered petitions in bankruptcy because of financial mismanagement or misfortune. Results have been entered in great detail and are now kept in a confidential file which will later be submitted to an elaborate analysis. The present work in Chicago will continue until enough interviews have been made to permit the drawing of general conclusions.

## Gold: not guilty

(*Continued from page* 43)

tary gold should be continually increasing.

A scarcity of gold, should it occur, would be likely to make itself felt in a slow but continuous decline in prices, as it did in the years 1873 to 1896, rather than in a catastrophic drop like the one we have just had after a long period of comparatively stable prices.

The problem of the world's distribution, or of its alleged present maldistribution, of gold is a complicated one and one upon which space will only permit a brief comment.

*First*, there is far more money work to be done in the United States than in any other country in the world, and, on the basis of our proportionate share of the world's economic activity, we should have much more gold than any other country. Either on the basis of economic activity or on the simple per capita basis, France has a much larger proportionate share of the world's monetary gold to-day than we have.

The chief reason, in my judgment, for the recent heavy flow of gold to the United States may be expressed in the slogan "Safety first". Given the collapse of 1929-1931 with its resulting losses and widespread bankruptcy, with its aftermath of unemployment, social unrest and political revolution, it is not strange that people everywhere should have become scared and have converted their capital into gold—the only thing they could see whose value was rising—and should have done their best to get that gold quickly in the safest place they could put it; namely, on deposit in the strongest banks they could find in the United States and France, and in bank acceptances, government bonds and other high-grade liquid securities in these two countries. Gold flowed here for safe-keeping. The all-important consideration has been safety, not yield. Hundreds of millions of dollars of these funds in the United States and France are serving as a storehouse of value for people all over the world, a function not greatly unlike that performed for the people of India by the numerous gold and silver hoards of that vast country. We have not wanted this gold—it has been thrust upon us. We are glad now that some of it is going out again, although it is unfortunate that so much of it has apparently gone into hoards in other places. We have had so much of it that we have not known what to do with it, and our Federal Reserve Banks have until recently been maintaining the lowest discount rates in history in order to get the gold out and to keep it from coming to us. Until lately, however, these efforts have been of little avail. With business depressed, confidence lacking, and with so many of our financial leaders in a blue funk, the funds have piled up in the banks, and even in private hoards, because the people who could best use them have been afraid to do so. Much of our gold is practically idle, but it will be put to work when people abroad and people at home believe that it can be put to work safely and profitably. Then it will be found that the supply is ample if the world organizes its gold-standard currency systems on modern scientific lines and places its administration in the hands of men of character and ability.

—Presented before the American Statistical Association.

## 3 D's: guilty

(*Continued from page* 13)

points, namely through his moratorium and his rediscount pool. But, as to the first, it would help incalculably, I think, if all existing inter-governmental debts were wiped out, wholly and forever—not as a magnanimous gesture, to help Europe at our expense, but as an act of self-interest; a modest price for the cure of a depression.

As to the technical attack on deflation, the Federal Reserve System should, I believe, have continued its open market operations, namely buying bonds. Other technical expedients are also available.

To turn this depression we need just what England needed, and what she has recently secured, a rise of the price level, and we can secure this without cutting loose from gold. To raise the price level to normal and then keep it there should be the great object, in other words, to take the swelling out of our hypertrified dollar and to stabilize it.

### Pay as you play

Installment Collector: See here, you're seven payments behind on your piano.

Buyer: Well, the company advertises, "Pay as You Play."

"What's that got to do with it?"

"I play very poorly."

## Bankruptcy recommendations

Spurred by a steady annual increase in the number of bankruptcies, the Department of Justice is busy drafting legislation to present to the new Congress which, if passed, will drastically revise every legal aspect of bankruptcy practice and settlement throughout the United States.

President Hoover was expected to recommend the new legislation to Congress in his annual message. It will be introduced by Senator George W. Norris (R.) of Nebraska as chairman of the Committee on the Judiciary, who has promised to give the proposals his energetic support.

With the backing of both the Administration forces and the Progressives who, along with Senator Norris, generally favor reform in bankruptcy laws, it is anticipated the new legislation will meet with little opposition in Congress, in the opinion of the *Christian Science Monitor*.

While the revised English bankruptcy laws of 1914, which have proved successful in reducing the practice in that country, furnish an example of what can and must be achieved, nevertheless the reform measures being drafted by the Department of Justice are based primarily on specific American needs and conditions.

In response to a request from President Hoover on July 30, 1930, the Department has conducted a careful investigation into the operation of the present law on the basis of which it has analyzed its failings and weaknesses. In addition the United States Bureau of Foreign and Domestic Commerce is conducting a study of bankruptcy cases with a view toward determining their causes from the business point of view.

Facts accumulated by the Department of Justice show the extent to which the existing act of 1898 has been subjected to widespread abuse, particularly during the last 10 years. In 1921 there were 15,000 bankruptcies granted. This has increased steadily year by year, reaching in 1930 to over 60,000.

This last figure is not to be interpreted as the result of the economic situation. In 1929 the number was 57,000 and in 1928, 53,000. The increase during these three years is in fairly normal proportion to the annual increase during the entire period—the largest difference having taken place between 1922 and 1923 when the figure jumped from 22,000 to 34,000.